

Legislative Audit Division

State of Montana



Report to the Legislature

March 1998

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Department of Public Health and Human Services

This report contains 24 recommendations to the department. Major issues addressed in this report include:

- ▶ Lack of an effective and efficient financial management control structure.
- ▶ Unrecorded operating plans.
- ▶ Misstatements within the accounting records.
- ▶ \$19.4 million of improper expenditure accruals.
- ▶ Continuing lack of controls over the Foster Care Program.
- ▶ Noncompliance with the federal Cash Management Improvement Act.
- ▶ Noncompliance with federal regulations regarding resolution of Medicaid quality control findings.
- ▶ Noncompliance with state laws related to Alcohol Tax Proceeds and statutory appropriations.

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1997 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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March 1998

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Public Health and Human Services for the two fiscal years ended June 30, 1997. This is the first audit of this department since a major reorganization which was effective July 1, 1995.

Included in this report are recommendations concerning implementation of an effective, efficient financial management control structure; improper expenditure accruals in the amount of \$19.4 million; improving controls over the department's foster care program; improving controls over preparation of the department's Schedule of Federal Financial Assistance; compliance with the state's Cash Management Improvement Act agreement, and compliance with federal and state laws and regulations.

We thank the director and her staff for their assistance and cooperation.

Respectfully submitted,

"Signature on File"

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Department of Public Health and Human Services

Members of the audit staff involved in this audit were Pearl M. Allen, Jeane Carstensen-Garrett, Chris Darragh, Laurie Evans, John B. Fine, Wayne D. Guazzo, Geri Hoffman, Frieda Houser, Cindy S. Jorgenson, Susan McEachern, Emlyn Neuman-Javornik, Vickie Rauser, and Jennifer Solem.

Table of Contents

	List of Figures and Tables	iv
	Appointed and Administrative Officials	v
	Report Summary	vii
Introduction	Introduction and Scope of Audit	1
	Reorganization	2
	Department Financial Activity	2
	Background	3
	Director's Office	3
	Child and Family Services Division	3
	Child Support Enforcement Division	5
	Health Policy and Services Division	5
	Quality Assurance Division	6
	Operations and Technology Division	6
	Disability Services Division	7
	Senior and Long-Term Care Division	7
	Addictive and Mental Disorders Division	8
Prior Audit Recommendations	Prior Audit Recommendations	11
	Department of Social and Rehabilitation Services	11
	Department of Corrections and Human Services	11
	Department of Family Services	11
	Department of Health and Environmental Sciences	12
	Department of Public Health and Human Services - Limited Scope Review	12
Findings and Recommendations	Financial Management	15
	Vendor/Provider Payments	16
	Operating Budgets not Recorded on SBAS	18
	Accruals and Deferrals of Federal Revenue	19
	Federal Revenue and Expenditure Errors	19
	Accounts Receivables and Accrued Expenditures	20
	Correction of Expenditure Accruals	21
	SBAS Mini-Coding	21
	Trust and Agency Funds	23
	Eastern Montana Veterans' Home Nursing Care Reimbursements	23
	Montana State Hospital	24
	Additions/Reductions to Property Held in Trust	24
	Escheated Property	26
	Child Support Enforcement Division Accounts Receivable	26

Table of Contents

Inter-entity Loans	27
Summary	27
Improper Expenditure Accruals	33
Foster Care	35
CAPS	37
Funding Sources Errors for Foster Care	38
EDP Controls	38
Overpayments	40
Noncompliance with Federal Matching Requirements	41
Subsidiary System Reconciliations to SBAS	42
Inadequate Segregation of Incompatible Trust Account Functions	45
Trust Account Investment Earnings Concerns	46
Unreconciled Child Support Payments	47
Schedule of Federal Financial Assistance	49
Other Federal Compliance Issues	50
Cash Management	50
Subrecipient Monitoring	53
Debarred and Suspended Parties	54
Resolution of Quality Control Findings	55
Allocation of Operating Costs to Food Commodities	56
Women, Infants, and Children Federal Financial Reports	57
Questioned Costs for Temporary Assistance to Needy Families Program	58
Misuse of Restricted Appropriation	59
State Compliance	60
Reporting Theft	60
Report on Medicaid Funding	61
Payroll Corrections Made Due to Untimely Submission of Time Sheets	61
Distribution of Alcohol Tax Proceeds	62
Statutory Appropriations	63
Tobacco Education Fees	64
Alcohol Tax Proceeds	64
Energy Conservation and Assistance Accounts	64
Summary	65
Invalid Fund Transfer - Prior Audit Recommendation	65

Table of Contents

Independent Auditor's Report & Agency Financial Schedules	Independent Auditor's Report A-3
	Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 1997 A-5
	Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 1996 A-7
	Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 1997 A-9
	Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 1996 A-11
	Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 1997 A-13
	Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 1996 A-15
	Notes to the Financial Schedules A-17
Department Response	Department of Public Health and Human Services B-3

List of Figures & Tables

<u>Figure 1</u>	Department of Public Health and Human Services	9
<u>Figure 2</u>	Fiscal Year 1996-97 Foster Care Funding Percent by Source	36
<u>Figure 3</u>	Fiscal Year 1996-97 Foster Care Expenditures Percent by Type	36
<u>Table 1</u>	Total Expenditures by Fund (in thousands)	2
<u>Table 2</u>	Summary of the Status of Prior Audit Recommendations Applicable to PHHS	13-14
<u>Table 3</u>	Operating Budgets Not Allocated on SBAS	28
<u>Table 4</u>	Summary of Financial Management Issue Misstatements	29
<u>Table 5</u>	Composition of Child Support Accounts Payable As of June 30, 1997	48
<u>Table 6</u>	Federal Cash Requested in Excess of Immediate Need	52

Appointed and Administrative Officials

Department of Public
Health and Human Services

Laurie Ekanger	Director
Hank Hudson	Administrator Child and Family Services Division
Mary Ann Wellbank	Administrator Child Support Enforcement Division
Nancy Ellery	Administrator Health Policy and Services Division
Denzel Davis	Administrator Quality Assurance Division
Michael Billings	Administrator Operations and Technology Division
Joe Mathews	Administrator Disability Services Division
Mike Hanshew	Administrator Senior and Long Term Care Division
Dan Anderson	Administrator Addictive and Mental Disorders Division

Department of Public Health and Human Services

We performed a financial-compliance audit of the Department of Public Health & Human Services (PHHS) for the two fiscal years ended June 30, 1997. PHHS was created as a result of reorganization approved by the 1995 Legislature. Chapter 546, Laws of 1995, reorganized the state's health and human services agencies effective July 1, 1995. The bill consolidated all or portions of the Departments of Social and Rehabilitation Services, Family Services, Health and Environmental Sciences, and Corrections and Human Services into one agency.

We determined the status of prior audit recommendations related to functions currently at PHHS. Of the 52 applicable recommendations, PHHS implemented 29, partially implemented 8 and did not implement 15.

We issued an adverse opinion on the financial schedules for each of the two years under audit (see page A-3). The opinion discusses misstatements exceeding \$85 million. Approximately \$64.4 million of misstatements resulted from misclassifications. The largest single misstatement is \$58.8 million which relates to a misclassification of food stamp expenditures in fiscal year 1995-96. Other misclassifications totaling approximately \$5.6 million relate to grants expenditures and impact both fiscal years 1995-96 and 1996-97. The reader should not rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

This audit report contains 24 recommendations to PHHS. The first recommendation, with additional support from issues discussed in recommendations 2 through 10, addresses the need for PHHS to implement an improved management control structure. This report discusses over 25 different accounting errors ranging in amounts from approximately \$380 to \$19.4 million. The various reasons given in explanation of the errors indicates an immediate need for management to improve its control structure.

In general, a control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and

Report Summary

regulations. There are five categories of control structure components:

1. Control environment sets the tone of an organization. It includes management's commitment to integrity and competency, placing the right people in the right jobs. Assignment of authority and responsibility provide assurance all personnel understand the organization's objectives, and how they contribute to those objectives.
2. Risk assessment provides a basis for identifying risks to achieving objectives and determining how to manage them. Risk factors include changes in the operating environment, systems, personnel or personal situations, and organizational restructurings.
3. Control activities are those policies and procedures which ensure management directives are carried out. Control activities pertain to information processing and include physical controls to safeguard assets, as well as, segregation of duties which reduces the opportunities for an individual to perpetuate and conceal errors or fraud.
4. Information and communication relate to the methods and records used to record, process, summarize and report an organization's transactions. The quality of the information directly impacts management's ability to make appropriate decisions. Communication provides an understanding of individual roles and responsibilities and how they relate to the work of others. Communication includes policy and accounting manuals, memoranda, oral discussion, and management actions.
5. Monitoring is assessing the quality of a control structure over time. It requires timely response to changing factors affecting design and operation of controls. Regular management and supervisory activities can provide an on-going monitoring process. An internal audit function in an organization provides a separate evaluation of the design and operation of controls. External sources, e.g. clients, also provide feedback on an organization's control structure.

Recommendation #2 specifically addresses management's interpretation of state law and policy with respect to expenditure accruals. Recommendations #3 through #8 address various accountability and management issues related to the foster care

program. Similar foster care issues and recommendations have been reported since 1989.

Recommendation #9 is a repeat finding addressing unreconciled accounts payable associated with the Child Support Enforcement Division. As of June 30, 1997 the net accounts payable totaled (\$36,269) with some accounts having been on the accounting records since June 30, 1994.

Recommendation #10, also a repeat finding, discusses the process PHHS uses to report its expenditures of federal financial assistance program expenditures to the Governor's Office of Budget and Program Planning. We identified 19 instances where incorrect expenditures were reported; the misstatements ranged from \$5,978 to \$3,604,900.

Federal compliance findings impacting most of the PHHS federal programs are discussed in recommendations #11 through #17. Issues include PHHS requests for over \$91 million from the federal government in excess of PHHS's immediate cash needs. There are specific recommendations related to Medicaid; AFDC; Food Stamps; Food Commodities; Women, Infants and Children; and Temporary Assistance to Needy Families. PHHS systems for subrecipient monitoring and reviewing for debarred and suspended parties are also addressed.

The remaining recommendations (#18 through #24) relate to compliance with state laws and include misspending restricted appropriations; theft reporting; Medicaid information required to be included in budget requests; payroll controls; alcohol tax proceeds distributions to local governments; statutory appropriations; and an invalid fund transfer.

PHHS management's responses to our recommendations can be found on page B-3. A summary of the recommendations contained in this report begins on page x.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend PHHS:

- A. Implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.

Department Response: Concur. See page B-4.

- B. Comply with constitutional and statutory requirements by disbursing funds only under appropriations made by law. 32

Department Response: Partially Concur. See page B-5.

Recommendation #2

We recommend PHHS:

- A. Accrue expenditures in accordance with state law and policy.

Department Response: Concur. See page B-6.

- B. Revert \$8,000,448 to the General Fund and \$11,440,515 to the Federal Special Revenue Fund. 35

Department Response: Concur. See page B-6.

Recommendation #3

We recommend PHHS prioritize change requests based on a department-wide perspective of needs. 39

Department Response: Concur. See page B-6.

Recommendation #4

We recommend PHHS establish adequate manual and automated procedures to:

- A. Prevent and detect overpayments to foster care providers.

Department Response: Concur. See page B-7.

- B. Ensure proper recording of refund receipts. 41

Department Response: Concur. See page B-8.

<u>Recommendation #5</u>	We recommend PHHS review and reconcile monthly accounting records for the Foster Care Title IV-E program and make appropriate corrections and procedure changes to ensure charges are properly allocated to state and federal funds. 42
	<u>Department Response:</u> Concur. See page B-8.
<u>Recommendation #6</u>	We recommend PHHS:
	A. Implement effective procedures for reconciling SBAS and its subsidiary foster care systems on a timely basis to ensure financial information on the accounting records is accurate and complete.
	<u>Department Response:</u> Concur. See page B-8.
	B. Ensure the ability to reconcile to the accounting records is included in the design of all systems which are intended to support those records. 44
	<u>Department Response:</u> Concur. See page B-9.
<u>Recommendation #7</u>	We recommend PHHS:
	A. Evaluate and reassign Fiscal Bureau staff responsibilities to eliminate incompatible functions and strengthen controls.
	<u>Department Response:</u> Concur. See page B-9.
	B. Ensure backup exists for key positions. 46
	<u>Department Response:</u> Concur. See page B-9.
<u>Recommendations #8</u>	We recommend PHHS liquidate the foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts. 47
	<u>Department Response:</u> Do Not Concur. See page B-9.
<u>Recommendation #9</u>	We recommend PHHS promptly reconcile and properly resolve the differences between payments authorized by SEARCHS and payments made by TEAMS. 49
	<u>Department Response:</u> Concur. See page B-9.

Report Summary

<u>Recommendation #10</u>	We recommend PHHS establish review procedures to ensure an accurate and complete Schedule of Federal Financial Assistance is submitted to the Governor's Office.	50
	<u>Department Response:</u> Concur. See page B-10.	
<u>Recommendation #11</u>	We recommend PHHS comply with the Cash Management Improvement Act and other federal regulations applicable to the management of federal cash.	53
	<u>Department Response:</u> Partially Concur. See page B-10.	
<u>Recommendation #12</u>	We recommend PHHS: A. Establish procedures to ensure compliance with federal laws and regulations related to subrecipient monitoring. <u>Department Response:</u> Concur. See page B-10. B. Seek reimbursement of the \$4,158 from the contractor. <u>Department Response:</u> Concur. See page B-10. C. Reimburse the federal government \$4,158.	54
	<u>Department Response:</u> Concur. See page B-10.	
<u>Recommendation #13</u>	We recommend PHHS comply with federal regulations concerning debarred and suspended parties.	55
	<u>Department Response:</u> Concur. See page B-11.	
<u>Recommendation #14</u>	We recommend PHHS ensure its quality control resolution procedures comply with federal regulations.	56
	<u>Department Response:</u> Partially Concur. See page B-11.	
<u>Recommendation #15</u>	We recommend PHHS review and revise its cost allocations to the food commodity programs to ensure compliance with federal regulations.	57
	<u>Department Response:</u> Concur. See page B-11.	

Report Summary

<u>Recommendation #16</u>	We recommend PHHS ensure the WIC computer system generates accurate and consistent summary reports.	58
	<u>Department Response:</u> Concur. See page B-11.	
<u>Recommendation #17</u>	We recommend PHHS: A. Modify the TEAMS programming to ensure expenditures are properly charged to the AFDC and TANF programs. <u>Department Response:</u> Concur. See page B-12.	
	B. Calculate the amount of AFDC activity charged to TANF, process the necessary transactions to correct the accounting records, and submit revised federal reports.	59
	<u>Department Response:</u> Concur. See page B-12.	
<u>Recommendation #18</u>	We recommend PHHS: A. Implement procedures to ensure it spends in accordance with specific, restrictive language contained in appropriation bills. <u>Department Response:</u> Concur. See page B-12.	
	B. Revert \$38,800 to the General Fund.	60
	<u>Department Response:</u> Concur. See page B-12.	
<u>Recommendation #19</u>	We recommend PHHS establish procedures for reporting theft in accordance with state law and communicate those procedures to all employees.	60
	<u>Department Response:</u> Partially Concur. See page B-12.	
<u>Recommendation #20</u>	We recommend PHHS comply with the reporting requirements in section 53-6-110, MCA.	61
	<u>Department Response:</u> Concur. See page B-13.	
<u>Recommendation #21</u>	We recommend PHHS establish procedures to ensure payroll is processed according to time sheets submitted for the current pay period.	62
	<u>Department Response:</u> Concur. See page B-13.	

Report Summary

Recommendation #22 We recommend PHHS comply with state law by distributing all remaining alcohol taxes to counties. 63

Department Response: Concur. See page B-13.

Recommendation #23 We recommend PHHS work with the Office of Budget and Program Planning to eliminate statutory appropriations for tobacco education fees, alcohol tax distributions, and amounts deposited in the energy conservation and assistance accounts. 65

Department Response: Partially Concur. See page B-13.

Recommendation #24 We recommend PHHS transfer \$24,921 from the federal Special Revenue Fund to the General Fund. 65

Department Response: Partially Concur. See page B-13.

Introduction

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Public Health & Human Services (PHHS) for the two fiscal years ended June 30, 1997. The objectives of the audit were to:

1. Determine if the department complied with applicable federal and state laws and regulations.
2. Review the adequacy of the management information system and make recommendations for the improvement of internal, financial operation, and administrative controls of the department.
3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the two fiscal years ended June 30, 1997.
4. Determine the implementation status of prior audit recommendations for which the department was responsible.

This report contains 24 recommendations to the department. These recommendations address areas where the department can improve internal controls, accounting procedures, and compliance with federal and state laws and regulations. Other concerns deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report, but have been discussed with department management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

During the course of our audit we were informed of an alleged theft involving a local public assistance office. The matter has been referred to the Attorney General for investigation.

Introduction

Reorganization

The legislature created PHHS as a result of executive reorganization approved by the 1995 Legislature. Chapter 546, Laws of 1995, reorganized the state's health and human services agencies effective July 1, 1995. The bill consolidated all or portions of the Departments of Social and Rehabilitation Services, Family Services, Health and Environmental Sciences, and Corrections and Human Services into one agency. PHHS administers all programs previously administered by the Department of Social and Rehabilitation Services and, except for Juvenile Justice, all programs from the Department of Family Services. The Mental Health, Substance Abuse, Developmental Disabilities and associated programs from the Department of Corrections and Human Services were incorporated into PHHS. In addition, PHHS received all of the health services programs from the Department of Health and Environmental Sciences. The health programs included an internal service fund which was used to account for indirect costs. PHHS incorporated the health programs into its cost allocation plan and eliminated the internal service fund as of June 30, 1997.

Department Financial Activity

Total expenditures recorded for the department are identified below by fund for each of the two fiscal years ended June 30, 1996 and 1997.

Table 1		
<u>Total Expenditures by Fund</u>		
(in thousands)		
	Fiscal Year <u>1995-96</u>	Fiscal Year <u>1996-97</u>
General Fund	\$215,460	\$228,008
State Special Revenue Funds	34,664	48,800
Federal Special Revenue Funds	525,005	511,912
Debt Service Fund	1,532	1,090
Internal Service Fund	371	436
Agency Funds	<u>211</u>	<u>589</u>
Total	<u>\$777,243</u>	<u>\$790,835</u>

Grants expenditures and Benefits and Claims expenditures, including food stamps, account for approximately 75 percent of the total department expenditures.

Background

PHHS administers numerous assistance and services programs. The department is organized into eight divisions. A current organizational chart is on page 9 of this audit report. The following paragraphs describe the responsibilities of each division within the department.

Director's Office

The director's office is responsible for providing the overall agency direction, policy development and coordinating the various human services programs administered by the department. The director's office includes the offices of legal affairs; personnel resources; public information; and state and local relations. The director's office administers the Telephone Devices for the Deaf program. The Board of Health and Human Services Appeals, the PHHS Statewide Advisory Council, the Native American Advisory Council, and the Montana Health Care Advisory Council are attached to the director's office.

Child and Family Services Division

The Child and Family Services Division administers a variety of programs to protect children, youth and adults suffering from poverty, abuse or neglect. The division works with communities and providers to enable families to become self-sufficient and increase their ability to nurture and provide for their children.

The division administers the Families Achieving Independence in Montana (FAIM) program, Montana's welfare reform package. The services provided through FAIM are funded with a federal block grant called Temporary Assistance to Needy Families (TANF). TANF replaced the following federal financial assistance programs: Aid to Families with Dependent Children, Emergency Assistance, IV-A Child Care, Transitional Child Care, At-Risk Child Care, and Job Opportunities and Basic Skills Training. FAIM provides payments to low-income families and children who meet income and resource eligibility standards. Related programs administered by the division include Child Care, Medicaid eligibility determination,

Introduction

Employment and Training programs, Food Stamp and Food Stamp Outreach.

Child Protection services are funded through federal Title IV-E funds, the Child Abuse and Neglect Grant and the Children's Justice Act. The Child Abuse and Neglect Grant supports contracts for education and information dissemination regarding abuse of children. The Children's Justice Act provides funds to improve the investigation, prosecution and handling of sexual abuse cases in a manner that will limit further trauma to victims. The Foster Care program provides family foster care, group homes, shelter care, some family-based services, and residential treatment services to families with children who are at imminent risk of removal due to abuse or neglect. The Independent Living program assists foster care children age 16 or older in making the transition from foster care to independent living.

The division provides energy assistance through the Low-Income Energy Assistance (LIEAP) and Weatherization programs. LIEAP provides heating assistance to low-income individuals and the Weatherization program funds installation of weatherization materials to reduce heating costs for low-income individuals.

The Food and Commodities Distribution program provides food products to eligible recipients. The Child Nutrition grant provides nutritious meals to children enrolled in participating child care facilities.

The Community Services Block Grant funds local projects to address the causes of poverty. The Homeless Grant is passed through to shelters and Human Resource Development Councils to provide lodging for individuals and families who are without, or at risk of being without, shelter.

The division also administers the Subsidized Adoption, Family Preservation and Support, Domestic Violence Prevention, and Refugee assistance programs.

Child Support Enforcement Division

The Child Support Enforcement Division pursues and recovers financial support for children by establishing, enforcing, and increasing public awareness of parental obligations. The division provides federally mandated child support enforcement services including location of absent parents, paternity establishment, financial and medical support order establishment, enforcement of current and past due child support, medical and spousal support, and modification of child support orders. Child support enforcement services are provided to applicants regardless of income level.

Health Policy and Services Division

The Health Policy and Services Division is responsible for the planning and implementation of statewide health policy with the intent to improve and protect the health of Montanans. The division administers the department's public health programs and the acute and primary care components of the Medicaid program.

The division administers several federal programs. These include the Medicaid program which provides health care for low-income Montanans, individuals with disabilities, or those who need long-term care; the Maternal and Child Health (MCH) block grant which provides funding for services to women and children; and other federal block grants which provide funds for programs such as immunization, sexually transmitted diseases, communicable disease, chronic disease and health promotion.

The division also administers several state programs. These include health assessment and resource development activities; Montana's emergency medical services system; training and support for sanitarians; inspection and licensing of food service, public accommodations and related public facilities; and inspections, technical assistance and public education on a range of environmental health issues including food and water safety, infectious disease prevention, product safety, and vector control. A vector is an agent which can transmit pathogens; transmission is either mechanical (e.g. houseflies) or biological (e.g. mosquitoes transmitting malaria).

Introduction

Quality Assurance Division

The Quality Assurance Division is responsible for the design, implementation and monitoring of the department's comprehensive quality assurance plan. The division utilizes comprehensive reviews, fiscal evaluations and performance measures to evaluate the delivery of PHHS services. Specific functions performed by the division include fair hearings; program, contract and grant audits; Surveillance and Utilizations Reviews for appropriate use of the Medicaid program; Third Party Liability recoveries; recovery of monies resulting from abuse of the Medicaid and state welfare programs; certification of health care facilities; and inspection and issuance of health care facility licenses.

Operations and Technology Division

The Operations and Technology Division provides operational support services for the department. The division is responsible for developing, implementing, and monitoring fiscal, budgetary and automation policy. The division also maintains the public health laboratory and vital statistics functions.

The division directs the operation of the major computer systems for the agency. The Economic Assistance Management System (TEAMS) provides statewide on-line eligibility and benefit determination for the Food Stamps, FAIM, and Medicaid programs. The Montana Automated Child Care System (MACCS), an integrated component of TEAMS, automates eligibility determination, case maintenance, payment and reporting of day care benefits for department child care programs. The System for Enforcement and Recovery of Child Support (SEARCHS) automates financial management of child support collections, absent parent location, paternity establishment, case management, order modification, and internal program management. The Child and Adult Protective Services (CAPS) program is an automated social services information system covering all major program areas of child protection, adult services and juvenile corrections, as well as client and non-client based contracts. The Montana Medicaid Management Information System (MMIS) is a provider claims processing and information retrieval system which is operated and maintained under contract.

Disability Services Division

The Disability Services Division coordinates, develops and implements comprehensive programs to assist Montanans with disabilities. The programs include assistance with activities of daily living, community based services, and coordinated programs of habilitation, rehabilitation and independent living.

The division provides, or contracts for, a wide variety of services including: institutional care, residential services, home-based services to families, case management, and employment outcome services such as counseling and career training. Institutional care is provided at the Eastmont Human Services Center (EHSC) in Glendive and the Montana Development Center (MDC) in Boulder. Employment outcome services are provided through the Vocational Rehabilitation and Developmental Disabilities programs. The division also has responsibility for medical adjudication of Social Security Disability and Supplemental Security Income claims.

The Developmental Disabilities Planning and Advisory Council is administratively attached to the division.

Senior and Long-Term Care Division

The Senior and Long-Term Care division plans and coordinates the delivery of publicly funded long-term care and support services to elderly Montanans and Montanans with physical and other disabilities.

The Office on Aging manages senior citizen programs under the federal Older Americans Act, provides public education on long-term care issues, and assists individuals in long-term care planning.

The State Veterans' Homes provide skilled nursing and other ancillary services to Montana's elderly veterans at the Montana Veterans' Home in Columbia Falls and the Eastern Montana Veterans' Home in Glendive. The Columbia Falls facility is operated by division personnel while the division contracts with a private provider for the services at the Glendive facility.

The Medicaid Community Services Program provides personal care, skilled nursing, home health, and hospice services to elderly and disabled persons eligible for Medicaid. The Medicaid Nursing

Introduction

Facility Services Program provides short and long-term nursing care for Medicaid eligible individuals.

The State Supplemental Payments Program supplements the Social Security Supplemental Income (SSI) payments to eligible individuals residing in designated residential care facilities. The division also coordinates policies protecting the elderly from abuse and neglect.

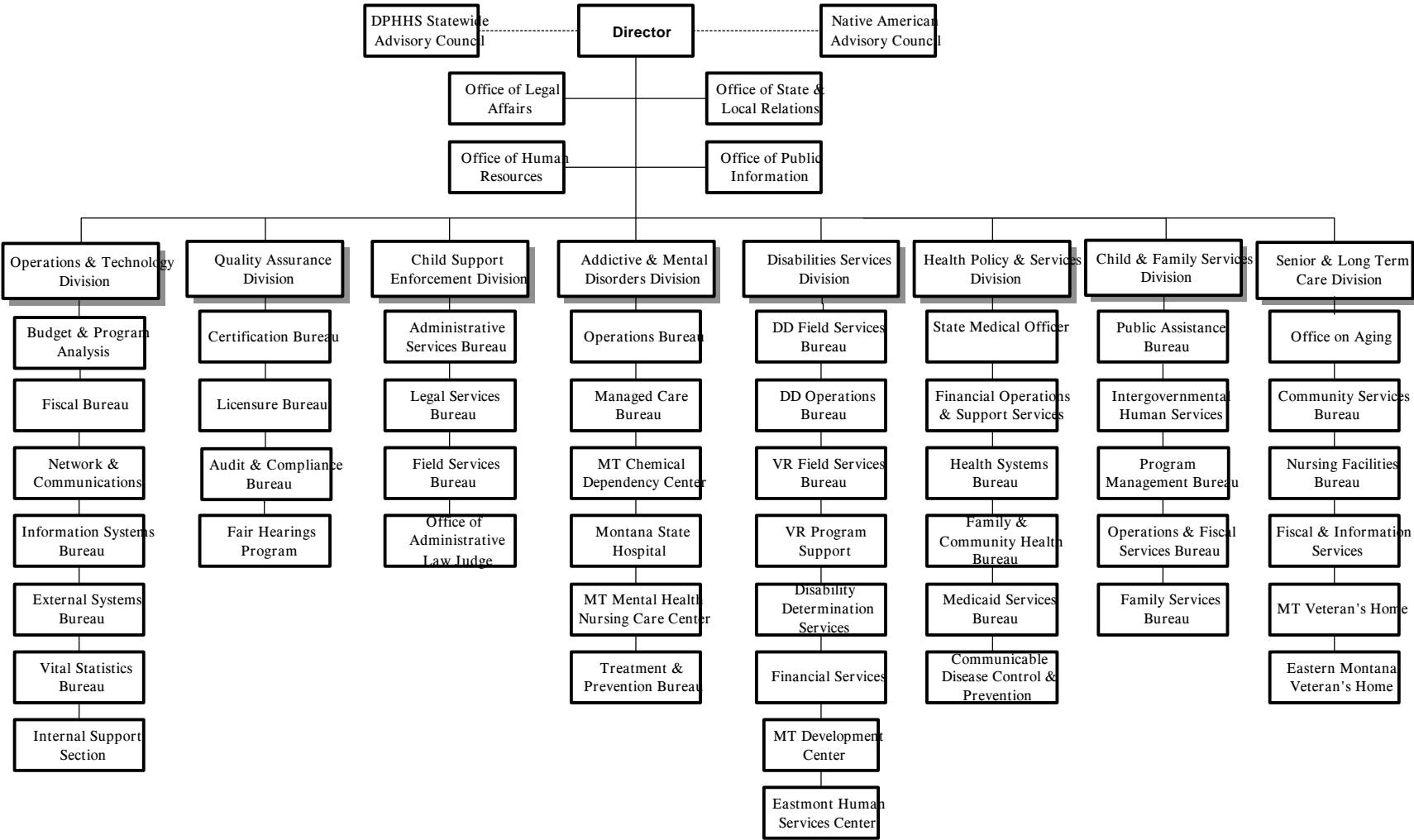
Addictive and Mental Disorders Division

The Addictive and Mental Disorders Division provides prevention, treatment, and rehabilitation services for people with chemical dependency and mental illness. The Montana State Hospital (MSH) at Warm Springs provides inpatient psychiatric hospital care to patients with serious mental illnesses. The Montana Chemical Dependency Center (MCDC) in Butte provides inpatient drug and alcohol treatment. The Montana Mental Health Nursing Care Center (MMHNCC) in Lewistown provides nursing home services to Montanans with mental illnesses. In addition, community mental health centers contract with the division to provide community mental health services throughout Montana.

Federal financial assistance programs such as Medicaid, the Substance Abuse Prevention and Treatment Block Grant, the Mental Health Block Grant, and the Project for Assistance in Transition from Homelessness (PATH) grant for the homeless mentally ill are used by the division to provide services to eligible clientele. The division manages the Mental Health Access Plan, a managed care system for publicly funded mental health services.

Figure 1

Department of Public Health and Human Services



Prior Audit Recommendations

Prior Audit Recommendations

We determined the status of prior audit recommendations related to functions currently at PHHS. The following audit reports contained recommendations applicable to PHHS:

- ▶ Department of Social & Rehabilitation Services (95-10)
- ▶ Department of Corrections & Human Services (94-7 & 95SP-84A)
- ▶ Department of Family Services (95-14)
- ▶ Department of Health & Environmental Sciences (95SP-84)
- ▶ Department of Public Health & Human Services - Limited Scope Review (95-10A)

The summary table on page 13 provides a reference to the status of individual audit recommendations. The table also references to the report findings discussed in this report for recommendations not implemented and certain recommendations which are partially implemented. The following paragraphs summarize the information contained in the table and provide additional information.

Department of Social and Rehabilitation Services

The financial-compliance audit of the Department of Social & Rehabilitation Services for the two fiscal years ended June 30, 1995, contained 14 recommendations. PHHS implemented 9 recommendations and did not implement 5 recommendations.

Department of Corrections and Human Services

The financial-compliance audit of the Department of Corrections & Human Services for the two fiscal years ended June 30, 1994, contained 7 recommendations applicable to functions transferred to PHHS. Of these, 4 recommendations were implemented, 2 were not implemented, and 1 is no longer applicable. The recommendation which is no longer applicable is related to reimbursement procedures for services provided by the Montana State Hospital.

Department of Family Services

The financial-compliance audit of the Department of Family Services for the two fiscal years ended June 30, 1995 contained 26 recommendations directed to PHHS. PHHS implemented 14, partially implemented 6, and did not implement 6 of these recommendations.

A recommendation related to collection of receivables from counties was not fully implemented by PHHS. However, PHHS personnel

Prior Audit Recommendations

are in the process of resolving this issue. Therefore, we are not addressing this issue in the current audit report. The county receivable issue will be reviewed during the department's next financial-compliance audit.

The recommendation related to procedures for canceled warrants was not fully implemented. The issue is not addressed in this report but will be reviewed during the next financial-compliance audit.

Department of Health and Environmental Sciences

The financial-compliance audit report of the Department of Health and Environmental Sciences for the fiscal year ended June 30, 1995 contained 3 recommendations addressed to PHHS. Of these, 1 was implemented and 2 were not implemented.

Department of Public Health and Human Services - Limited Scope Review

Our office performed a limited scope review of Medicaid expenditures for durable medical equipment. This review contained 3 recommendations directed to the department. Of these, the department implemented 1 and partially implemented 2 recommendations. The 2 recommendations not fully implemented relate to achieving cost savings for oxygen concentrators and incontinence supplies. We are not addressing these issues in the current audit report as the department is in the process of establishing procedures aimed at generating cost savings.

Table 2

Summary of the Status of Prior Audit Recommendations Applicable to PHHS

Prior Audit Recommendation:			Current Finding
<u>Number</u>	<u>Subject</u>	<u>Status</u>	<u>Page Reference</u>
Department of Social & Rehabilitation Services - #95-10			
1	Uncollected Medicaid Drug Rebates	I	
2	Refugee Resettlement General Fund Reimbursement & Questioned Costs	I	
3	Montana Automated Child Care System Expenditures	I	
4	Food Stamp Risks	I	
5	Medicaid Personal Care Services Program Monitoring Quality of Care .	I	
6	Federal Cash Management	NI	50
7	Developmental Disabilities Contracts	I	
8	Schedule of Federal Financial Assistance	NI	49
9	LIHEAP Overpayment	I	
10	Montana Telecommunications Access Program	I	
11	Compliance Issues	I	
12	Accounting Record Accuracy	NI	19
13	Unreconciled Child Support Payments	NI	47
14	Other Accounting Errors	NI	15
Department of Corrections & Human Services - #94-7			
11	Resident Personal Property	I	
12	Internal Controls Over Resident Accounts	NI	23
17	Rental Housing	I	
18	Miscellaneous Revenue	I	
20	Reporting Theft	NI	60
21	Advisory Council Compensation	I	
Department of Health & Environmental Sciences - #95SP-84			
1	Federal Cash Management	NI	50
2	Federal Reporting	I	
4B	Accounting Issues	NI	15
Department of Public Health & Human Services Limited Scope Review - #95-10A			
1	Oxygen Concentrators	PI	
2	Equipment Identification Codes	I	
3	Incontinence Supplies	PI	
Legend: I = Implemented NI = Not Implemented PI = Partially Implemented			

Source: Compiled by the Legislative Audit Division.

Prior Audit Recommendations

Table 2

Summary of the Status of Prior Audit Recommendations Applicable to PHHS
(continued)

Prior Audit Recommendation:

Current Finding

<u>Number</u>	<u>Subject</u>	<u>Status</u>	<u>Page Reference</u>
Department of Family Services - #95-14			
1	Managing Federal Cash Reimbursements	NI	50
2	Cost Distribution	I	
3	Helena Housing Authority Social Worker	I	
4	Appropriations	PI	59
5	Use of Prior Year Appropriations	I	
6	Refinancing Existing Programs	I	
7	Invalid Fund Transfer	PI	65
8	Approved Operating Budget	I	
9	Special Revenue Account Fund Balance	NI	19
10	Third Party Payments	I	
11	County Participation	I	
12	Improper Federal Charges	I	
13	Equipment Purchases	I	
14	County Receivables	PI	
15	Federal Reporting	I	
16	Eligibility Determination	I	
17	Matching Eligibility to Funding Sources	NI	38
18	Foster Care Corrections	PI	38
19	SBAS and Database Reconciliations	NI	42
20	Procedures for Canceled Warrants	PI	
21	Controls Over Payments to Residential Treatment Facilities	NI	40
22	Late Payments to Providers	I	
23	Time Lag of Foster Care Payments	PI	42
24	Accuracy of Foster Care Payments	NI	42
25	Abandoned Property	I	
26	Notification of County Attorney	I	

Legend:	I = Implemented	<u>Totals</u>	
	NI = Not Implemented	Implemented	29
	PI = Partially Implemented	Not Implemented	15
		Partially Implemented	<u>8</u>
		Total	<u>52</u>

Source: Compiled by the Legislative Audit Division.

Findings and Recommendations

Financial Management

The Montana State Constitution and Title 17, MCA, address legal requirements related to fiscal control and accountability. Specific statutes address topics such as cash depositing and inter-entity loans. Section 17-1-102, MCA, requires each agency to record the transactions necessary to ensure its accounting records are in accordance with generally accepted accounting principles by the close of each fiscal year.

We identified several issues related to fiscal control and accountability during this audit. They include those discussed in this section, as well as those related to expenditure accruals (page 33), foster care (page 35), child support payments (page 47), and the schedules of federal financial assistance (page 49). Actions taken by PHHS personnel resulted in misstatements within the Statewide Budgeting and Accounting System (SBAS) for fiscal years 1995-96 and 1996-97, as well as non-compliance with laws and policies.

During our audit period, PHHS accounting personnel were occupied with daily workloads, department reorganization, and a conversion to the present chart of accounts which includes separate accounting entities for each federal financial assistance program. PHHS now has over 200 active accounting entities.

Reorganization and conversion responsibilities contributed to the non-compliance and accounting errors discussed in this report. Other contributing factors include the diversity and the quantity of transactions, no system to monitor accounting records, lack of supervision and review, and federal and state welfare reform. PHHS also implemented computer applications which required frequent modification and debugging.

The fiscal issues described in this report point to the necessity for PHHS management to properly design and implement an efficient and effective financial management control structure. Such a structure should provide assurance transactions process properly, and in a timely manner. A properly designed and effectively implemented control structure should allow PHHS to more efficiently meet its state and federal mandates.

Findings and Recommendations

Vendor/Provider Payments

PHHS routinely generates vendor and provider payments by using advance and prepaid expense accounts, not an expenditure account. There are primarily two computer systems which generate the payments to vendors and providers. Normal processing through these systems includes simultaneous creation of expenditure transactions to clear the advance and prepaid expenses subsidiary accounts. Therefore, two transactions are necessary to properly account for each payment. Expenditure transactions are subject to SBAS appropriations and expenditure control edits while the entries to advance and prepaid expense accounts are not. When errors occur in the expenditure transactions, personnel must process correcting transactions, but this does not prevent the payments from being sent. According to PHHS officials, the systems were designed in this manner to ensure provider and vendor payments were timely. During fiscal years 1995-96, 1996-97, and the first quarter of 1997-98, PHHS processed \$55,849,980; \$182,428,065; and \$41,333,839 of transactions, respectively, which initially bypassed SBAS appropriation and expenditure controls. Most of these payments, over 95 percent of which were from the General Fund, are later subjected to appropriation and expenditure controls as discussed above. However, they do violate provisions of the Montana Constitution and statutory law.

Article VIII, of the Montana Constitution states, "Section 14. Prohibited payments. Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof." Statutory law (section 2-15-1002, MCA and Title 17, MCA) also provide for disbursement from the treasury only upon appropriations made by law.

Use of the advance and prepaid expenses accounts to pay for services which have been provided circumvents appropriation controls built into SBAS. As long as there is cash in the accounting entity, PHHS could continue paying its vendors and providers even in the event there was no longer any appropriation authority. Disbursing funds from the state's treasury with limited control is not a good business practice and can adversely impact accountability for the state's assets.

Findings and Recommendations

There is an increased risk of not properly recognizing expenditures and any associated revenue when the subsidiary accounts are not cleared appropriately. PHHS personnel did fail to properly recognize revenue and expenditures. Our review of the advance and prepaid expenses subsidiary accounts identified an instance where PHHS paid a bill in the amount of \$6,251, but never recognized an expenditure. In another instance, the department recognized the same \$5,327 expenditure in each of two fiscal years. These errors would not have occurred had PHHS used an expenditure account, not an asset account, to pay these bills. PHHS personnel could have detected and corrected both of these errors had they routinely reviewed and monitored subsidiary detail ledgers. In a third instance, involving a federal program, we determined PHHS has not requested reimbursement of \$383,032 from the federal government for fiscal year 1996-97 payments to providers. PHHS requests reimbursement from the federal government based on recorded expenditures and the \$383,032 is recorded as an advance in the General Fund. The advance account must be cleared and expenditures recorded before PHHS can support a request for reimbursement. The General Fund has supported the DOE-Weatherization program (CFDA #81.042) resulting in lost interest to the state of approximately \$1,600 per month until the money is received from the federal government. PHHS personnel could have detected this error had they reconciled federal reports to both the general ledger and subsidiary ledgers.

PHHS could have prevented these errors by initially recording expenditures rather than advances or prepaid expenses. PHHS should modify its payment systems to record vendor/provider payments as expenditures to ensure the payments are subject to appropriation control immediately. The net balance of advances and prepaid expenses was \$3,140,485 at June 30, 1997. PHHS should analyze its advances and prepaid expenses subsidiary account balances and process the necessary correcting entries.

Findings and Recommendations

Operating Budgets not Recorded on SBAS

Section 17-7-138, MCA, requires PHHS to record its operating budget and any approved changes on SBAS. Each operating budget must include expenditures for each agency program, detailed at least by first-level expenditure categories. Expenditures must be made in substantial compliance with the operating budget, meaning that a first level expenditure category within that budget may not be exceeded by more than five percent.

We reviewed PHHS accounting records to determine whether operating budgets were recorded in accordance with state law. We identified significant amounts of budget authority that were not allocated by the first level object of expenditure. For example, at fiscal year-end 1995-96, the Health and Policy Services Division had unallocated authority of \$149,591,605 and the Senior and Long-Term Care Division had unallocated authority of \$228,215,155. These divisions had unallocated authority of \$218,060,390 and \$151,171,639 at fiscal year-end 1996-97, respectively. PHHS accounting records do not demonstrate whether expenditures were made in substantial compliance with an approved operating budget.

Division budget personnel prepare monthly reports containing budget information by expenditure category which are submitted to the Director's Office and the Operations and Technology Division. Division budget personnel maintain separate spreadsheets to support these monthly reports because this information is for the most part unavailable from the accounting records. The practice of maintaining separate spreadsheets is an inefficient allocation of resources as SBAS can provide the information needed for preparation of the monthly reports. In addition, the operating budget information is not available for other SBAS users. PHHS should comply with state law by properly recording the operating budget on its accounting records.

Findings and Recommendations

Accruals and Deferrals of Federal Revenue

PHHS did not record all the financial activity necessary to properly accrue and defer revenue in the federal special revenue accounts by June 30, 1997. Accrual and deferral transactions are necessary to match revenue with reimbursable expenditures. There were errors in 53 of 135 accounts reviewed. These included understatements and overstatements in amounts due from the federal government, deferred revenue, and federal revenue in the Special Revenue Fund. These errors resulted in the following net misstatements at June 30, 1997:

<u>Over (under) stated</u>	
Due from the Federal Government	\$(4,206,441)
Deferred Revenue	\$1,467,220
Federal Revenue	\$(5,673,661)

Supervisory review of the SBAS general ledger would have detected and, in some cases, prevented these errors. PHHS personnel have stated they were aware there were some federal special revenue fund accounting entities not balanced and reconciled at fiscal year-end 1996-97. They further stated that because many transactions affecting these entities were processed on the last two days of fiscal year-end, it was virtually impossible to complete a thorough review and submit correcting entries. They plan to have all entities reviewed and corrected by May 1998, and to establish new procedures for fiscal year-end 1997-98 which will permit time for a thorough review and reconciliation of these entities.

Federal Revenue and Expenditure Errors

PHHS processed six transactions during fiscal year 1995-96 which were inadvertently coded to current year revenue rather than prior year revenue. This mistake overstated federal revenue and direct entries to fund balance in the Special Revenue Fund by \$261,027. These transactions were part of the department's conversion from one combined federal accounting entity to separate federal program accounting entities.

PHHS entered into a \$6,000 contract with the U.S. Department of Health and Human Services to study the status of women's health in the state of Montana. Prior to receiving payment on the contract, PHHS charged the expenditures to an unrelated federal program

Findings and Recommendations

account. PHHS should have recorded revenue when it received the reimbursement and then charged the expenditures to the appropriate federal account; however, PHHS recorded the reimbursement as an expenditure abatement in the unrelated federal program account. PHHS thus understated fiscal year 1996-97 revenues and expenditures by \$6,000. PHHS personnel in the affected bureau stated they did not know how else to handle the contract.

Accounts Receivables and Accrued Expenditures

We found two instances where PHHS did not record accounts receivable and accrued expenditures transactions. Each of these impacted the Medicaid program (CFDA #93.778).

PHHS inappropriately recorded a receivable of \$3,496,000 in the General Fund for estimated payments made to nursing or care center providers in June 1997. Normally, payment information is provided by the Medicaid claims processor to support the payments which are then recorded as expenditures. However, the information for the first two weeks of June 1997 was late and PHHS chose not to delay provider payments. Because this transaction was not a valid receivable, June 30, 1997 General Fund accounts receivable are overstated by \$3,496,000. If the payments had been properly recorded they would have reduced the Medicaid accrued expenditure estimate. As a result, accrued expenditures are overstated by \$1,083,410 and \$2,412,590 in the General Fund and Special Revenue Fund, respectively. PHHS also did not recognize that paying the entire amount from the General Fund created a receivable/payable relationship between the General Fund and the Medicaid account in the Special Revenue Fund. Therefore, Due From Other Accounting Entities is understated by \$2,412,590 in the General Fund and Due To Other Accounting Entities is understated by the same amount in the Special Revenue Fund.

PHHS did not record Medicaid Drug Rebate receivables. At June 30, 1997, accounts receivable were understated and expenditures overstated by \$841,567 in the General Fund and \$1,874,040 in the Special Revenue Fund for the Health and Policy Services Division program. PHHS personnel stated recording drug rebate receivables was a change in accounting policy discussed late in the fiscal year-end 1996-97 period. The fiscal bureau chief and

Findings and Recommendations

staff did not have time to research the matter and arrive at a decision prior to the close of the fiscal year. PHHS should consider establishing and enforcing internal cut-off dates to ensure transactions are recorded in the proper fiscal year.

Correction of Expenditure Accruals

PHHS understated its fiscal year 1996-97 expenditure activity by \$804,000 in the Women, Infants, & Children program (CFDA #10.557). This error occurred due to attempts to clear a fiscal year 1994-95 expenditure accrual. In June 1996, personnel processed a transaction which cleared the accrual but used the wrong expenditure control account. Transactions were then processed to correct this error. Personnel improperly processed two additional transactions during fiscal year 1996-97 related to this situation. These two transactions caused the \$804,000 understatement. A formal reconciliation, timely performed, between the general ledger and subsidiary program system would have identified the needed action and prevented the fiscal year 1996-97 error from occurring.

SBAS Mini-Coding

We identified two types of misstatements which were caused by a procedure called "mini-coding." When an agency mini-codes transactions, the information required for input is minimal. As the transactions process, logic and coding previously provided by the agency and embedded in SBAS expand the mini-coding into completely coded transactions. The expansion can include splitting one line of coding on a document into two or more transactions; for example, a vender mini-coded payment funded by both General Fund and federal moneys would be expanded to at least two lines of coding. The advantage of mini-coding is that it generally reduces the time involved in transaction processing, as well as reducing coding errors.

The first type of mini-coding misstatement involves expenditure object codes. SBAS accepts only one object code per line of coding on a document. This can result in improperly coded transactions when both state and federal moneys are involved. PHHS charged some General and State Special Revenue Fund expenditures to the Grants from Federal Sources expenditure code and charged some Federal Special Revenue expenditures to the Grants from State Sources code in the Addictive and Mental Disorders Division

Findings and Recommendations

program during both fiscal years under audit. Grants from State Sources are understated by \$157,355 in fiscal year 1995-96 and by \$5,475,510 in fiscal year 1996-97. Grants from Federal Sources are overstated by those same amounts.

The second type of mini-coding misstatement occurred during the fiscal year-end period. State accounting policy requires the use of cash cut-off accounts during each fiscal year-end period for certain transactions. Two of these accounts replace increases to the regular cash account and two replace decreases. Mini-coding during the fiscal year-end period automatically replaces the regular cash account coding with cash cut-off accounts. State policy requires the use of the regular cash account for some transactions processed during the year-end period; an example is a correction involving cost centers within a single accounting entity. If the cash cut-off accounts are used in this situation, the result is an overstatement of assets and liabilities.

We reviewed PHHS use of the cut-off accounts during fiscal year-end 1996-97. PHHS made various corrections to its accounting records during this time period using the mini-coding procedures discussed above. The result, for PHHS at June 30, 1997, was a \$3,144,021 overstatement of General Fund assets and liabilities and a \$6,059,276 overstatement of Special Revenue Fund assets and liabilities.

PHHS should evaluate its document coding procedures and determine the most efficient way to comply with state accounting policy concerning year-end transactions. One method may be to request assistance from the Accounting Bureau at Department of Administration in developing final year-end transactions to correct any misstatements associated with the use of mini-coding during the fiscal year-end.

Findings and Recommendations

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the state as an agent for individuals, private organizations, other governments, or other funds. PHHS accounts for escheated property in an expendable trust fund. PHHS uses an agency fund to account for resident accounts at the Montana State Hospital (MSH), Eastmont Human Services Center (EHSC), Montana Development Center (MDC), Eastern Montana Veterans' Home (EMVH), Montana Mental Health Nursing Care Center (MMHNCC), and the Montana Veterans' Home (MVH). Facility personnel maintain these resident moneys in approved non-treasury bank accounts. The individual resident account information is maintained on a Resident Account System (RAS) at each facility. RAS information is used to update SBAS. PHHS also uses an agency fund to account for the Eastern Montana Veterans' Home reimbursements received from the Veterans' Administration. We reviewed the accounting activity recorded in the Trust and Agency Funds and identified several accounting errors. These are outlined in the following paragraphs.

Eastern Montana Veterans' Home Nursing Care Reimbursements

PHHS receives a reimbursement from the Veterans' Administration for services provided to veterans at the EMVH and MVH. Both facilities are state-owned and have as their mission the long-term care of veterans. The MVH is run by state employees while PHHS contracts for the operation of the EMVH .

PHHS records the reimbursement for the MVH in a federal special revenue account and the reimbursement for the EMVH in an agency fund. PHHS personnel indicated they used an agency fund for the EMVH reimbursements because the Veterans' Administration was unwilling to send the money directly to the contractor. The reimbursements for both veterans' homes are received from the same source and for the same purpose. These reimbursements are federal financial assistance and should be recorded in federal special revenue accounts. As a result of this error, Nonbudgeted Revenues and Expenditures are overstated in the Agency Fund and Budgeted Revenues and Expenditures are understated in the Special Revenue Fund by \$211,371 in fiscal year 1995-96 and \$589,407 in fiscal year 1996-97.

Findings and Recommendations

Montana State Hospital

In the prior Department of Corrections audit, we reviewed MSH procedures for reconciling the RAS to its non-treasury cash account. As a result of that review, we determined MSH personnel did not have adequate reconciliation procedures in place. We also determined the total balance on the RAS did not agree to the non-treasury cash account or to the sum of the individual accounts within the system. The system total exceeded the checking account balance by \$383 and was out-of-balance with the individual accounts by \$486.

We reviewed current RAS reconciliation procedures at MSH. We determined that while MSH personnel have established reconciliation procedures, the differences identified in the prior audit have not been corrected. MSH is responsible for maintaining accountability over resident moneys as part of its fiduciary responsibilities to the residents. By not correcting the errors identified in the prior audit, PHHS has not met its fiduciary responsibility.

MSH personnel indicated they believe the balances in the checking and savings accounts are correct and they are unable to locate the errors within the RAS. However, MSH is liable to each resident for the balances in their accounts. MSH should process the transactions needed to bring the non-treasury bank accounts into balance with the sum of the individual resident accounts, and then ensure future reconciliations are performed in a timely manner.

Additions/Reductions to Property Held in Trust

The facilities record transactions on SBAS which summarize the activity recorded within each RAS. We identified several instances where SBAS does not agree to the RAS information. Some of the errors resulted in a misstatement of additions and reductions to property held in trust. Others resulted in misstatement of beginning and ending property held in trust balances. The effect of these errors are outlined in the following paragraphs:

- ▶ MDC's calculated June 30, 1996 property held in trust amount differed from the amount recorded on SBAS. This resulted in an unexplained reduction to property held in trust of \$3,318 during fiscal year-end 1995-96.

Findings and Recommendations

- ▶ MMHNCC personnel adjusted SBAS records to match the June 30, 1996 and 1997 bank statements. Because timing differences existed between the bank balances and the RAS balances, the following misstatements exist:

	<u>Over (Under) Stated</u>
July 1, 1995	
Property held in trust	\$ 2,145
Fiscal year 1995-96	
Additions to property held in trust	\$35,578
June 30, 1996/July 1, 1996	
Property held in trust	\$37,723
Fiscal year 1996-97	
Reductions to property held in trust	\$32,738
June 30, 1997	
Property held in trust	\$ 4,985

- ▶ MVH personnel removed accountability for individual veterans' checkbooks from SBAS in fiscal year 1995-96. This caused reductions to property held in trust to be overstated and custodial cash to be understated by \$160,646. This issue was addressed in the Department of Corrections audit report for the two fiscal years ended June 30, 1994.
- ▶ PHHS personnel record the net receipts or disbursements from the RAS as either a net addition or net reduction to property held in trust on SBAS. Netting this activity on the accounting records does not accurately reflect the activity which has occurred within each RAS. PHHS personnel provided us with the total receipts and disbursements from each RAS. Amounts on the Schedules of Changes in Fund Balances and Property Held in Trust appearing on pages A-5 and A-7 of the audit report were reclassified to show the total receipts and disbursements made to resident accounts during each fiscal year. PHHS personnel should separately record the total additions and total reductions on SBAS to accurately reflect the RAS activity.

Findings and Recommendations

Escheated Property

We reviewed procedures used by PHHS to account for escheated property. Accounting standards define escheated property as the reversion of property to a governmental entity in the absence of legal claimants or heirs. It includes abandoned and unclaimed property. PHHS currently uses its escheated property account to track stale-dated warrants. That account should also be used for any property which facility residents do not take with them when they leave. We determined this property is not accounted for in accordance with state accounting policy. PHHS personnel stated copies of the policies outlining proper accounting of escheated property were sent to facility accountants. Facility accountants stated this guidance was never received. Because personnel failed to follow state accounting policy both at the facilities and in Helena, revenues and transfers out are misstated on PHHS's accounting records. We were unable to determine the extent of the misstatement, but believe there is no material effect on ending fund balance in the Expendable Trust Fund. PHHS should establish procedures to ensure escheated property transactions are recorded in accordance with applicable state accounting policy.

Child Support Enforcement Division Accounts Receivable

PHHS initially records all money received for child support payments as revenue and all disbursements as expenditures in the Agency Fund. Receipts and disbursements were \$32.2 million and \$31.7 million, respectively in fiscal year 1996-97. Occasionally, custodial parents receive more money than they are entitled to. This can occur when the non-custodial parent remits less than the monthly child support, yet PHHS sends the custodial parent the entire amount of monthly support. It can also occur when PHHS does not properly apply a currency exchange rate prior to sending the payment to the custodial parent.

When custodial parents receive more money than they should, PHHS records an account receivable in the Agency Fund. At June 30, 1996 and 1997, the accounts receivable totaled \$204,236 and \$249,460, respectively. If the program ceased operation, there would not be enough cash in the account to make all of the final payments to custodial parents. Recording a receivable in the Agency Fund indicates PHHS uses money received from other non-custodial parents to cover its erroneous custodial parent payments.

Findings and Recommendations

PHHS has a fiduciary responsibility to both custodial and non-custodial parents and should properly account for moneys entrusted to it. Loaning other people's money is not appropriate. PHHS should record the receivables in either the State Special Revenue Fund child support account or the General Fund and transfer cash into the Agency Fund to keep the property held in trust intact.

Inter-entity Loans

State law requires every accounting entity have a positive cash balance at year-end. When necessary, agencies use inter-entity loans to accomplish this. Inter-entity loans require approval from the Department of Administration. PHHS had unrecorded inter-entity loans during both fiscal years under audit. Rather than obtain approval for inter-entity loans from the Department of Administration in all cases when accounting entities had negative cash balances, PHHS used the accounts Due From Other Accounting Entities and Due To Other Accounting Entities. These accounts are to be used when a vendor relationship exists between functions of state government and no such relationship existed in these instances. The amount of unapproved and unrecorded inter-entity loans during fiscal year 1995-96 was approximately \$6 million and during fiscal year 1996-97 was approximately \$7.5 million. The "due to" and "due from" balances for both fiscal years were cleared during fiscal year 1996-97.

PHHS should comply with inter-entity loan requirements and monitor its cash needs to avoid negative cash balances to the extent possible.

Summary

The fiscal issues discussed on pages 15 through 27, 33, 35, 47, and 49 clearly demonstrate that PHHS management must implement an improved financial management control structure. Correcting the errors identified in these sections will not prevent similar errors from occurring in the future. Until PHHS implements an efficient and effective financial management control structure, it has a high risk of making inappropriate financial decisions and disseminating inaccurate and misleading financial information. The tables below provide summaries of the misstatements in the PHHS accounting records.

Findings and Recommendations

Table 3

Operating Budgets Not Allocated on SBAS

<u>Program</u>	Fiscal Year <u>1995-96</u>	Fiscal Year <u>1996-97</u>
Child & Family Services Division	\$138,552,731	\$145,138,094
Director's Office	2,812,980	2,497,288
Child Support Enforcement Div.	9,443,007	9,864,823
Health & Policy Services Div.	228,215,155	218,060,390
Division of Quality Assurance	4,461,770	4,684,717
Operations & Technology Div.	31,453,807	38,421,859
Disability Services Division	1	71,702,521
Senior & Long-Term Care Div.	149,591,605	151,171,639
Addictive & Mental Disorders Div.	56,272,821	72,561,587
Director's Office/Health	0	1
Central Services/Health	<u>339,062</u>	<u>1</u>
Total Not Allocated	<u>\$621,142,939</u>	<u>\$714,102,920</u>
Total Budget	<u>\$705,954,064</u>	<u>\$752,739,209</u>

Source: Compiled by the Legislative Audit Division from
the Statewide Budgeting and Accounting System.

Findings and Recommendations

Table 4

Summary of Financial Management Issue Misstatements

<u>Issue</u>	<u>Fund(s) Affected</u>	<u>Account(s) Affected</u>	<u>Misstatements</u>	
			<u>Fiscal Year 1995-96</u>	<u>Fiscal Year 1996-97</u>
Vendor/Provi-der Payments, Pg. 16	General and Special Revenue	Expenditures and Prepaid Expenses Loans Receivable and Advances Benefits Expenditures - Child & Family Services Division; Loan Payable; <u>Due from Federal Government; and Federal Revenue</u>	\$ 6,251	\$ 5,327 \$383,032 \$383,032
Accruals and Deferrals of Revenue, Pg. 19	Special Revenue	Due from Federal Government Deferred Revenue <u>Federal Revenue</u>		\$4,206,441 \$1,467,220 \$5,673,661
Federal Revenues and Expenditure, Pg. 19	Special Revenue	Federal Revenue Other Services Expenditures - Health Policy & Services Div. and Federal <u>Revenue</u>	\$ 261,027	 \$ 6,000
Receivables and Accrued Expenditures, Pg. 20	General and Special Revenue	Accrued Expenditures and Benefits Expenditures - Addictive & Mental Disorders Division Accrued Expenditures and Benefits Expenditures - Addictive & Mental Disorders Division Accrued Expenditures Due from Other Accounting Entities Accounts Receivable Accrued Expenditures and Due to Other Accounting Entities Accounts Receivable and Benefits Expenditures - Health Policy & Services <u>Accounts Receivable and Benefits Expenditures - Health Policy & Services</u>		\$ 79,820 \$177,746 \$1,083,410 \$2,412,590 \$3,496,000 \$2,412,590 \$841,567 \$1,874,040
Expenditure <u>Accruals, Pg. 21</u>	Special Revenue	Benefits Expenditures - Health Policy & Services Division		\$804,000
SBAS Mini- Coding, Pg. 21	General and Special Revenue	Grants Expenditures - Addictive & Mental Disorders Division Cash Cutoff <u>Cash Cutoff</u>	\$ 157,355	\$5,475,510 \$3,144,021 \$6,059,276
Nursing Care Reimburse- ments, Pg. 23	Special Revenue and Agency	Federal and Miscellaneous Revenue and Grants Expenditures - Senior & Long Term Care Division	\$ 211,371	\$589,407
Montana State Hospital, Pg. 24	Agency	Property Held in Trust	\$ 383	\$383
Property Held in Trust, Pg. 24	Agency	Property Held in Trust, July 1, 1995 Additions to Property Held in Trust Property Held in Trust, June 30, 1996 Reductions to Property Held in Trust <u>Property Held in Trust, June 30, 1997</u>	\$ 2,145 \$ 35,578 \$ 37,723 \$ 160,646	 \$32,738 \$4,985
Child Support Enforcement Receivables Pg. 26	General and Agency	Accounts Receivable	\$ 204,236	\$249,460
<u>Loans, Pg. 27</u>	<u>Special Revenue</u>	<u>Loans Receivable and Payable</u>	<u>\$6,000,000</u>	<u>\$7,500,000</u>
Improper Expenditure Accruals, Pg. 33	General and Special Revenue	Accrued Expenditures and Other Services Expenditures - Operations & Technology Division Accrued Expenditures and Other Services Expenditures - Operations & Technology Division		\$8,000,448 \$11,440,515
Alcohol Tax Proceeds, Pg. 62	Special Revenue	Due to Local Governments and Local Assistance Expenditures - Addictive & Mental Disorders Division Local Assistance Expenditures - Addictive & Mental Disorders Division <u>Due to Local Governments</u>	\$ 555,177	 \$91,700 \$646,877

Source: Compiled by the Legislative Audit Division.

Findings and Recommendations

The Committee of Sponsoring Organizations (COSO) arose as an outgrowth of the Treadway Commission (National Committee on Fraudulent Financial Reporting). The Treadway Commission recommended COSO develop a common definition of internal control and provide guidance to help management better control the organization's operations. In general, a control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. According to COSO, components of a control structure can be classified into five categories:

1. Control environment sets the tone of an organization. It includes management's commitment to integrity and competency, placing the right people in the right jobs. Assignment of authority and responsibility provide assurance all personnel understand the organization's objectives, and how they contribute to those objectives.
2. Risk assessment provides a basis for identifying risks to achieving objectives and determining how to manage them. Risk factors include changes in the operating environment, systems, personnel or personal situations, and organizational restructurings.
3. Control activities are those policies and procedures which ensure management directives are carried out. Control activities pertain to information processing and include physical controls to safeguard assets, as well as segregation of duties which reduces the opportunities for an individual to perpetrate and conceal errors or fraud.
4. Information and communication relate to the methods and records used to record, process, summarize and report an organization's transactions. The quality of the information directly impacts management's ability to make appropriate decisions. Communication provides an understanding of individual roles and responsibilities and how they relate to the work of others. Communication includes policy and accounting manuals, memoranda, oral discussion, and management actions.
5. Monitoring is assessing the quality of a control structure over time. It requires timely response to changing factors affecting design and operation of controls. Regular management and supervisory activities can provide an on-going monitoring

Findings and Recommendations

process. An internal audit function in an organization provides a separate evaluation of the design and operation of controls. External sources, e.g. clients, also provide feedback on an organization's control structure.

During the course of our audit, we observed that fiscal bureau personnel did not always know how their work interrelated with the work of others in the bureau or with other divisions. Individuals with supervisory responsibilities were often too busy with daily work to provide needed supervision and review.

PHHS officials stated, "that as a result of the department's reorganization, many of the staff are performing new duties and tasks which require the development of different skills and knowledge. Additional training and the development of documented procedures is required to assist staff with developing the knowledge and skills necessary to efficiently and effectively perform their new duties. In addition, the Fiscal Bureau is undergoing a reorganization that is intended to address many of the financial management problems experienced during the 1996-97 biennium." In addition, the fiscal bureau has not filled three vacant positions. Leaving positions vacant can lead to a breakdown in a control structure resulting in undetected errors or fraud. It also reduces the opportunities for cross-training and providing backup to key positions.

These control issues are not isolated within the fiscal bureau. The foster care issues discussed on page 35 are also control related. In many cases, financial transactions are initiated in other divisions. This necessitates communication between those divisions and the fiscal bureau. Communication lines should be clearly delineated. Ensuring personnel know whom to contact will increase efficiency and effectiveness and reduce opportunities to create unnecessary internal bureaucracy.

The importance of management control is recognized by the Montana Constitution and statutory law, both of which mandate controls be in place to safeguard assets and provide accountability by state government. As PHHS designs and implements a financial management control structure, management should address the

Findings and Recommendations

control components discussed above. The sections discussing the individual issues include specific suggestions for control activities which would have prevented or detected the identified errors.

We recognize there is a cost to implementing our recommendations. As of February 1998, PHHS officials estimated approximately \$350,000 for consultants to work with them to identify and document current systems and procedures. This does not include PHHS personnel time to answer the consultants' questions or to address components such as control environment, management's risk assessment, or communication mechanisms. This estimate does not consider any costs associated with computer system enhancements or with enhanced monitoring although PHHS should anticipate some cost savings as the financial management control structure becomes active. For example, the amount of time spent correcting mistakes should decrease. In addition, PHHS may also incur higher personal services costs as it evaluates the skills needed to achieve its objectives and hires or trains individuals for those positions.

PHHS expenditures exceed \$750 million per year. While the costs to implement an improved management control structure may appear high, they need to be analyzed against the types of errors and non-compliance discussed in this report, as well as the complexity, diversity, and magnitude of the programs for which PHHS is responsible.

Recommendation #1

We recommend PHHS:

- A. Implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.
- B. Comply with constitutional and statutory requirements by disbursing funds only under appropriations made by law.

Improper Expenditure Accruals

At fiscal year-end 1996-97, PHHS accrued over \$20 million of expenditures in the Operations and Technology Division program for anticipated fiscal year 1997-98 and 1998-99 facilities maintenance contract costs for MMIS, CAPS, TEAMS/MACCS, Virtual Human Services Pavilion (VHSP) amendments, and SEARCHS amendments. Under state law and policy, approximately \$19.4 million of these expenditures should not have been accrued. The accruals caused overstatements of expenditures and liabilities, and corresponding understatements of fund balance, of approximately \$8 million in the General Fund and \$11.4 million in the Special Revenue Fund.

Section 17-1-102(4), MCA, states "All state agencies . . . shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles, except that for budgetary control purposes, encumbrances that are required by generally accepted accounting principles to be reported as a reservation of fund balance must be recorded as expenditures and liabilities on the accounting records." The encumbrances referred to in the exception in law are commonly known as "A" accruals.

Generally accepted accounting principles require encumbrance accounting be consistent with the legally prescribed budgetary basis of accounting, and that encumbrances represent the estimated amount of expenditures ultimately to result if unperformed contracts in process at year-end are completed. Valid obligation criteria for "A" accruals is defined in state accounting policy (Management Memo 2-97-1) as follows: "Services should, as a general rule, be charged against the fiscal year in which the services will be received" and "Commitments related to unperformed, legally-binding contracts in process at year-end may be accrued." This management memo also states, when applying the valid obligation criteria to "A" accruals, ". . . agencies should first consider legislative intent. An 'A' item that complies with the valid obligation criteria, but is contrary to the original intent of the legislature when appropriations were enacted, or as amended, . . . should not be accrued."

Findings and Recommendations

The PHHS facilities maintenance costs are budgeted on a fiscal year basis (i.e., one fiscal year's costs are budgeted in each fiscal year). The original fiscal year 1996-97 operating plan included funding for facilities maintenance and system development. To accrue the fiscal year 1997-98 and 1998-99 contract amounts, it was necessary for the department to process significant program transfers, which more than doubled the Operation and Technology Division's "Other Services" budget. Had the legislature intended PHHS to accrue multiple years' costs, we believe it would have been evident based on the original operating plan amounts. Nothing should have been accrued at fiscal year-end 1996-97 for the fiscal year 1997-98 and 1998-99 MMIS, CAPS, and TEAMS/MACCS facilities maintenance service contracts because these services were included in the FY98-99 biennium budget approved by the legislature.

The accruals associated with the June 30, 1997 VHSP amendment (\$1,000,000) and the June 12, 1997 SEARCHS amendment (\$262,860) are not valid because there are no specific services identified in the amendments. Based on the language in these amendments, it would not be possible to determine if a payment should liquidate the accrual or be a current year expenditure.

Although state law provides that encumbrances must be treated as expenditures and liabilities within the accounting records for budgetary control purposes, the above service contracts and amendments should not have been encumbered or accrued.

Accruing this activity circumvented the appropriations process by making available appropriation authority in the FY98-99 biennium for other uses. In effect, PHHS increased its spending authority by approximately \$19.4 million for the FY98-99 biennium. Accrual of the FY98-99 biennium costs for these systems puts the department in the position of having no operation and maintenance costs in one or more fiscal years for critical ongoing operating systems. We believe this is misleading to SBAS users as well as to users of the department's financial schedules.

PHHS officials told us they accrued two years of facilities maintenance contract amounts at the end of fiscal year 1996-97 because the legislature cut the department's General Fund budget for the FY98-99 biennium by \$4 million. They noted that by shifting an

Findings and Recommendations

additional year of expenditures to fiscal year 1996-97, they could restore these cuts. HB 356, which would have eliminated the department's ability to record "A" accruals, was tabled by the Appropriations Committee on February 12, 1997, after PHHS accepted the \$4 million cut. PHHS officials told us they believe the legislature's intent was for the department to use available fiscal year 1996-97 appropriation authority for expenditures that would otherwise have been recorded during the FY98-99 biennium.

State law and accounting policy regarding accruals did not change and PHHS should have complied with those requirements. PHHS personnel believed they met the requirement that the accrual be in accordance with legislative intent because they stayed within their appropriation limit (as revised by program transfers which are permitted by state law). PHHS personnel suggested accounting policy regarding accruals may need clarification.

Recommendation #2

We recommend PHHS:

- A. Accrue expenditures in accordance with state law and policy.
- B. Revert \$8,000,448 to the General Fund and \$11,440,515 to the Federal Special Revenue Fund.

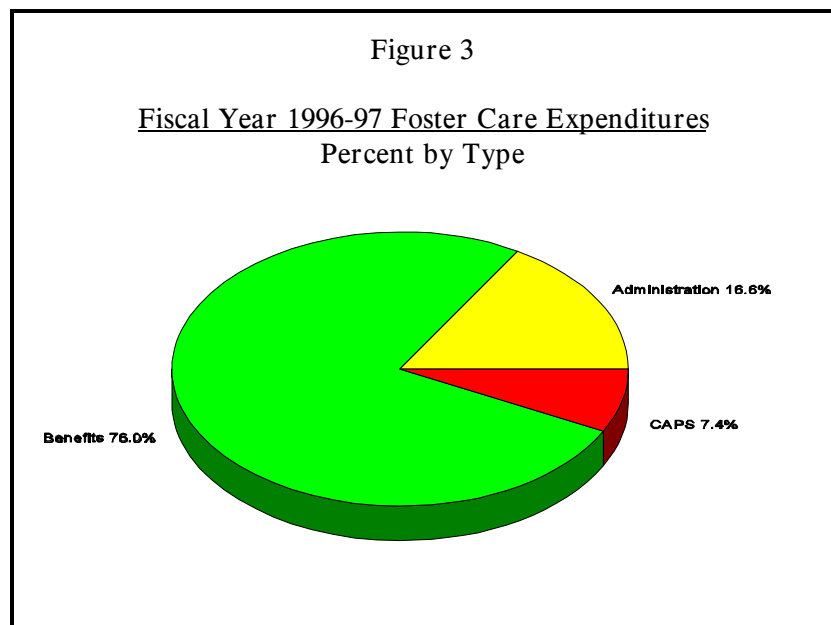
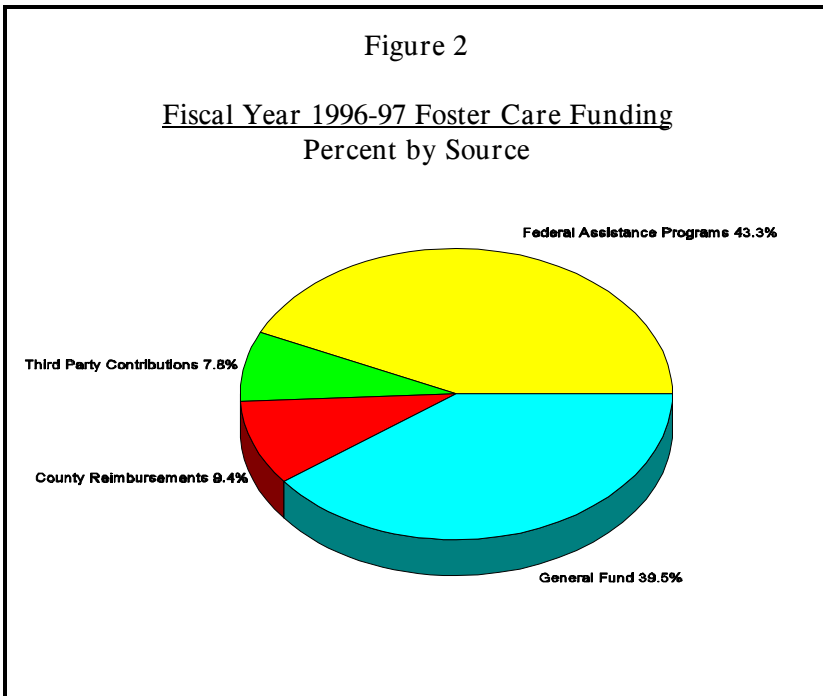
Foster Care

PHHS administers the foster care program. Foster care is the full-time care in a residential setting (to provide food, shelter, security and safety, guidance, direction, and if necessary, treatment) of youth who are removed from or are without the care and supervision of their parents or guardian.

Foster care is funded through the state General Fund, county reimbursements, federal assistance programs (primarily Foster Care Title IV-E, CFDA #93.658), and third party contributions (e.g., Social Security, Supplemental Security Income, retirement benefits, and child support payments) made on behalf of specific youth. Foster care expenditures include administrative costs and the development and operation of the Child and Adult Protective Services System (CAPS), as well as payments to foster care providers. According to

Findings and Recommendations

SBAS, PHHS spent over \$22 million to operate the foster care program in fiscal year 1996-97. The sources of funding and types of costs during fiscal year 1996-97 were as follows:



CAPS

CAPS is a computerized information system designed to support the social services programs administered by the department's Child and Family Services Division. CAPS processes information for child and adult protective services, services to the aged, and services to juvenile corrections. CAPS was developed to meet federal requirements for a statewide automated child welfare information system and an adoption and foster care analysis and reporting system. In addition, the department desired automated access to workload and caseload management information and statistics. The system is designed to initiate payments for services; provide subsidiary detail support for third party contributions, charges, and balances for individual youth trust accounts; and interface with SBAS to record the financial activity.

CAPS is intended to increase productivity, improve staff utilization, reduce manual functions and processes, and improve case management by employees responsible for child welfare services and adoption and foster care activities. The CAPS project was initiated on November 1, 1993, and statewide implementation concluded for all but the trust account module in July 1996. PHHS converted its trust account balances to CAPS in February 1997.

When a youth is placed in the state's custody, a social worker is assigned to gather intake information regarding the youth's needs, whether there are third party resources available to pay for the youth's care, and whether the youth is eligible to receive foster care benefits under various federal programs. The case worker is responsible for placing the youth with an appropriate provider and, if necessary, setting up a treatment plan. This intake information is entered on CAPS, either by the case worker or clerical staff. Case workers update information as the case progresses.

Based on this information, CAPS initiates payments on state warrants to licensed providers at approved rates for the youth's care. The financial activity resulting from these payments and any subsequent corrections are automatically posted to SBAS based on the eligibility codes on CAPS and third party amounts available in the youth's trust account, if any. PHHS uses the financial activity

Findings and Recommendations

recorded on SBAS to bill the federal government and counties for their share of the foster care payments. The following sections discuss concerns we have regarding controls over and the accuracy of foster care financial information on CAPS and SBAS.

Funding Sources Errors for Foster Care

We found evidence of foster care funding source errors during our Electronic Data Processing (EDP) audit of CAPS (#97DP-06) and during financial-compliance audit testing of the foster care program. To comply with state financial management and federal foster care requirements, PHHS must improve its automated and manual controls and procedures to properly account for financial activity related to foster care.

EDP Controls

During our prior audit of the Department of Family Services (DFS), we reported ten issues related to foster care. Department personnel told us CAPS would resolve many or most of the problems related to six of these issues. We cautioned department personnel they were at risk of automating manual processes that were not adequately controlled and suggested they implement adequate controls for these processes regardless of automation.

During our current audit, we found PHHS had not implemented three, partially implemented two, and implemented one of the six recommendations management thought CAPS would solve. For the recommendation that was implemented, we found PHHS implemented CAPS, a system to ensure Title IV-E foster care payments are made on behalf of eligible clients in accordance with federal regulations. However, during our EDP audit of CAPS, we concluded CAPS applications controls were not adequate due to data input, funding source, and system output reliability issues.

The EDP audit report contains 12 recommendations to PHHS addressing concerns related to development, user access, programmer access, accuracy of data entry, correction and resubmission of data entry errors, services requiring justification, case notes not included on-line, approval for services, eligibility determination (including funding source code assignments and system generated adjustments), reports for reconciling CAPS to SBAS, and Department of Corrections and youth court issues. We

Findings and Recommendations

relied on the results of the EDP audit and built on that work to meet financial-compliance audit objectives.

Our EDP CAPS audit identified several issues indicating there are funding source errors on SBAS transactions related to foster care. There are also overstatements or understatements of financial activity due to overpayment, lack of documentation, lack of separate approval, untimely error correction, incorrect data, and system edit issues. Due to the inadequate application controls discussed in the EDP report, it was not practical to quantify the effect of the errors resulting from these issues. PHHS had identified \$116,979 of funding source errors occurring prior to June 30, 1997, which had not processed by July 28, 1997. It is likely there were other errors which had not been identified at that time.

In general, these errors occurred due to flawed CAPS system development, inadequate user acceptance testing, and errors in the conversion process. This resulted in significant change requests, the costs of which passed to the facilities maintenance contract. These change requests are prioritized by a 41-member committee of users, with heavy representation from social workers in field offices. Because the committee operates with a democratic one-person one-vote process and has no established criteria for ranking proposed changes, priorities are not necessarily established appropriately from a department-wide perspective. The restructuring of DFS into PHHS may have created a staff resource problem that affected these processes, particularly timely user acceptance testing. PHHS personnel told us the Child & Family Services Division has no vacant positions and needs more resources to get the backlog of corrections made.

Recommendation #3

We recommend PHHS prioritize change requests based on a department-wide perspective of needs.

Findings and Recommendations

Overpayments

We reviewed five documents containing transactions to reduce foster care expenditures recorded on SBAS during fiscal years 1995-96 and 1996-97. During this review, we observed \$189,233 of refunds of foster care payments made to providers for services provided as far back as October 1993. These refunds occurred because the foster care program paid for services for which Medicaid or other sources also paid and overpaid for services due to CAPS programming errors and incorrect use of CAPS by foster care staff.

Most of the refunds were initiated by the overpaid providers, and not by PHHS. It is likely the department has overpaid providers who have chosen not to tell PHHS and refund the overpayment. When PHHS becomes aware of an overpayment to a provider, it reduces payments to the provider by a set monthly amount, rather than offsetting the full amount of the overpayment before making another payment to the provider.

All five refund documents tested recorded refunds to incorrect cost centers on SBAS. PHHS personnel indicated refunds do not get recorded to the correct accounts receivable subsidiary detail ledger numbers on SBAS and that refunds have not been credited to trust accounts and billings for county reimbursements on SBAS for two to three years. The correct accounts need to be used so SBAS records accurately reflect financial management information in accordance with state law and so amounts can be appropriately billed or returned to others. Incorrect coding of cost centers can cause the refund to be split incorrectly between state and federal funds, resulting in noncompliance with federal matching requirements for the foster care program.

PHHS should establish control procedures to prevent and identify overpayments and to maximize collection of overpayments in a timely manner. PHHS implemented a procedure, as recommended in the prior audit, to have the Addictive and Mental Disorders Division send weekly Medicaid certification/decertification updates to the regional offices. This procedure was in place until Mental Health Managed Care started in April 1997. Since then, there has not been a department-wide procedure for preventing or detecting foster care payments to providers for services covered by Medicaid.

Findings and Recommendations

Recommendation #4

We recommend PHHS establish adequate manual and automated procedures to:

- A. Prevent and detect overpayments to foster care providers.
- B. Ensure proper recording of refund receipts.

Noncompliance with Federal Matching Requirements

Most of the federal funds in the foster care program are from the Foster Care Title IV-E Program (CFDA #93.658). Federal regulations for this program permit federal financial participation at the rate of the federal medical assistance percentage for foster care maintenance and adoption assistance payments, which was 69.01 percent during federal fiscal year 1997; 75 percent for the costs of training personnel employed or preparing for employment by the State or local agency in administering the plan; and at 50 percent for administrative expenditures necessary for the proper and efficient administration of the plan. Development costs of CAPS were approved at a 75 percent federal participation rate, but allowable CAPS operating costs are limited to the 50 percent federal participation rate for administration. We found charges to the Foster Care Title IV-E program were not properly allocated between state and federal funds during fiscal years 1995-96 and 1996-97.

We calculated the state and federal share of expenditures recorded on SBAS for each cost center included in the federal foster care accounts at fiscal year-end 1995-96 and May 31, 1997, and for five of the largest cost centers at fiscal year-end 1996-97. Eight of sixty-eight foster care cost centers at fiscal year-end 1995-96 were not in the proper state/federal ratio. Five of the eighty-seven centers at May 31, 1997, were not in the proper state/federal ratio at both May 31 and fiscal year-end 1996-97. We also found one of the five high dollar cost centers tested at fiscal year-end 1996-97 was not in the proper state/federal ratio, although it had been in the proper ratio at May 31, 1997.

As a result of these errors, federal funds were overcharged a net of \$33,346 in fiscal year 1995-96. Federal funds were undercharged a net of \$24,390 in fiscal year 1996-97. The net effect for the

Findings and Recommendations

biennium was an \$8,956 overcharge of federal funds and undercharge of state funds. Therefore, we question \$8,956 in charges to the federal government.

Because the centers are set up to automatically split costs between federal and state funds in the appropriate ratio if the expenditures are properly recorded, it is possible the errors occurred when transactions were recorded incorrectly or if the centers were not set up with the correct automatic cost split rates. Based on discussions with PHHS personnel, the department's priority has been to complete CAPS development and implementation, so they have not had as much time as usual to monitor and review accounting records to identify and correct errors. They indicated the Child and Family Services Division is understaffed, and does not have budget authority to hire more people. PHHS personnel could identify and correct these errors in a timely manner if they reconciled CAPS to SBAS and reviewed cost center information monthly. The cost to implement this recommendation is addressed in the financial management issue summary beginning on page 27.

Recommendation #5

We recommend PHHS review and reconcile monthly accounting records for the Foster Care Title IV-E program and make appropriate corrections and procedure changes to ensure charges are properly allocated to state and federal funds.

Subsidiary System Reconciliations to SBAS

In previous audits of DFS, we recommended the department “reconcile SBAS and its foster care database on a timely basis to ensure financial information on the state’s accounting records is accurate and complete.” As of January 7, 1998, CAPS and the former foster care database (client database) have not been reconciled to SBAS. PHHS personnel attempted to reconcile for fiscal year 1994-95 but were not completely successful. There are significant differences between the subsidiary foster care systems and SBAS. For example, the Property Held in Trust balance on SBAS exceeded the total of the balances on the trust account subsystem by \$240,644 at January 31, 1997; \$93,891 at June 30, 1997; and \$147,371 at December 31, 1997.

Findings and Recommendations

Because the client database cannot be adjusted, and adjustments are made to SBAS, the systems do not agree. Adjustments initiated by PHHS personnel or generated by CAPS can be made to CAPS and may or may not be recorded on SBAS. PHHS must reconcile the foster care subsidiary systems and SBAS to identify and determine the causes of the differences. PHHS must reconcile the databases to SBAS by funding source to ensure the amounts charged to federal programs are supported by the detail records on the databases.

Once these differences have been isolated, corrections can be made to ensure both sets of records are accurate and complete. Any system or procedural problems identified by the reconciliation can be corrected to prevent similar problems in the future. Federal regulations require all federal charges be supported by the accounting records. Because we cannot verify the validity of the subsidiary subsystems as support for SBAS, we do not know if federal reports, which are based on SBAS amounts, are accurate and complete.

During the prior audit of DFS, agency personnel told us CAPS would provide the detail necessary to perform a reconciliation with SBAS. During the current audit, PHHS personnel told us they have not reconciled CAPS and the client database to SBAS because they did not have the information detail they need from CAPS to do so. They told us the necessary reports were included in the original design of CAPS but were later dropped. We reviewed the CAPS General System Design Document and found it contained one paragraph concerning reconciliation. This paragraph does not discuss the need for reports of all CAPS transactions to complete reconciliations of CAPS to SBAS.

A PHHS official told us the reports containing the information necessary to reconcile CAPS to SBAS were available in June 1997 for current, but not prior, transactions. PHHS personnel told us they received reports in September 1997 which provided the detail necessary to reconcile fiscal years 1995-96 and 1996-97 SBAS financial activity initiated by CAPS transactions. However, they said these reports contain no information regarding CAPS transactions which did not initiate SBAS activity.

Findings and Recommendations

PHHS personnel have a procedure to reconcile batches of transactions input to the trust account subsystem to transactions processed on SBAS each month to ensure all transactions that should have processed did process on each system. This reconciliation was last done for June 1996. We reviewed the reconciliation completed for October 1995 and found it was not adequate to accomplish its purpose. The reconciliation contained items in the batch listing that were not traced to SBAS and not treated as reconciling items; reconciling items that were on both the batch list and SBAS for the same amount, and therefore were not legitimate reconciling items; differences in dollar amounts between the batch list and SBAS which were not treated as reconciling items; reconciling items that were not supported; and addition errors. While the reconciliation appeared to balance, it did not. The reconciliation was not reviewed by the preparer's supervisor, although the preparer is also responsible for processing foster care and trust account activity on the client database and its associated Trust Account Management System (TAMS), CAPS, and SBAS.

PHHS personnel told us these reconciliations were suspended because the employee who was responsible for preparing them took on the responsibilities of an employee who resigned, including a backlog of six to eight months of foster care charges and at least two or three years of credits which had been recorded on SBAS and TAMS but which had not been recorded on the client database. The cost of implementing this recommendation is included in the financial management issue summary beginning on page 27.

Recommendation #6

We recommend PHHS:

- A. Implement effective procedures for reconciling SBAS and its subsidiary foster care systems on a timely basis to ensure financial information on the accounting records is accurate and complete.
- B. Ensure the ability to reconcile to the accounting records is included in the design of all systems which are intended to support those records.

Findings and Recommendations

Inadequate Segregation of Incompatible Trust Account Functions

State policy acknowledges agency management is responsible for establishing and maintaining a system of internal controls over collections and deposits. Montana Operations Manual section 2-1210.00 states: "No one person should perform incompatible functions. Incompatible functions place an employee in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. If feasible, functional responsibilities of record-keeping, authorization, operations and custodianship should be separated." While performing testing of foster care trust accounts, we observed PHHS management had assigned incompatible functions to a fiscal bureau employee responsible for foster care trust accounts.

From late May 1997 until we identified the incompatible duties and expressed our concerns to PHHS personnel in December 1997, an accounting technician was responsible for opening mail and listing trust account receipts, preparing the related deposit ticket and SBAS collection report, and taking the deposit to the State Treasury Unit. This employee is also responsible for recording individual trust account activity on the trust account subsystems and SBAS and reconciling the trust account subsystems to SBAS. After we discussed this issue with the employee's immediate supervisor, the responsibility for logging the trust account receipts was shifted to another person. After we further discussed this issue with PHHS personnel, the responsibility for opening mail containing trust account receipts was also shifted. Currently, the technician receives the checks and the check log, after the check log is prepared by another employee, and uses them to post to individual trust accounts and to complete the deposit process. No one makes sure everything listed on the original check log is included in the deposit.

According to PHHS personnel, the employee who logged receipts prior to May 1997 did not have enough time to log trust account checks. About 300 checks are received for foster care youth at the beginning of each month and an additional 100 checks come in throughout the month. The accounting technician was assigned these responsibilities because she is the one who needed the check information to post receipts to the trust account subsystems and prepare the deposit. The technician was assigned responsibility for recording trust account financial activity on SBAS when another

Findings and Recommendations

employee left. Because she is the person most familiar with the trust accounts, she could pick up the additional work more easily than other employees.

In addition to inadequate segregation of duties, this combination of employee turnover and reassignment of responsibilities has created a situation where there are few people who are familiar with recording foster care trust account activity, so there is little or no backup when the accounting technician is gone. PHHS management should evaluate job duties, provide adequate segregation of responsibilities, and ensure backup exists for key positions.

Recommendation #7

We recommend PHHS:

- A. Evaluate and reassign Fiscal Bureau staff responsibilities to eliminate incompatible functions and strengthen controls.
- B. Ensure backup exists for key positions.

Trust Account Investment Earnings Concerns

During our audit period, PHHS invested \$277,100 from the foster care trust accounts in the state's Short-Term Investment Pool (STIP), from which PHHS receives investment earnings monthly. PHHS's subsidiary trust account systems distribute these earnings to individual trust accounts based on the month-end balances in each individual's trust account. Many of these account balances were not correct at month-end. Much of the remaining trust account money, \$648,675 and \$175,067 at June 30, 1996 and 1997, respectively, is classified as Cash in Treasury, which is invested by the Board of Investments for the state treasurer. The investment earnings from this money are deposited in the state's General Fund. Because the amount invested in STIP has not changed, investment earnings to the trust accounts (approximately \$16,200 during fiscal year 1996-97) were not maximized.

Until PHHS converted to the CAPS trust account module in February 1997, many trust accounts for children were maintained on the old client database TAMS system. There was no interface between the systems, so charges for cost of care which normally

Findings and Recommendations

would have been paid by the children's accounts could not be made against the trust accounts. This inflated these children's trust account balances until the accounts were converted to CAPS and the accumulated cost of care charges were deducted from the accounts.

We believe the amount of time required to design, implement, and monitor an equitable investment strategy for trust accounts exceeds the benefits to be derived. PHHS should liquidate the STIP investment and allocate the proceeds to the individual trust accounts which contributed to the STIP investment. In the event there are unclaimed or unidentified proceeds, they should be placed in PHHS's escheated property account.

Recommendations #8

We recommend PHHS liquidate the foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts.

Unreconciled Child Support Payments

Child Support Enforcement Division (CSED) personnel are responsible for collecting and distributing absent parent child support payments to custodial parents. When custodial parents receive assistance from the Aid to Families with Dependent Children program (CFDA #93.560) they must assign their child support payments to the department. Until October 1, 1996, regulations allowed custodial parents who assigned their child support payments to PHHS to receive \$50 from each payment in addition to their AFDC assistance. PHHS used the balance of the payment to defray the cost of the AFDC program.

CSED personnel use the SEARCHS computer system to monitor the child support payments received. This system compiled a listing of custodial parents authorized to receive the \$50 payment. This information was then used by the TEAMS computer system to generate the payments to custodial parents. The amount paid to the custodial parents frequently differed from the amount authorized.

In our prior audit of the Department of Social and Rehabilitation Services, we reviewed CSED procedures and determined personnel

Findings and Recommendations

did not reconcile any differences between the two computer systems. Even though PHHS concurred with our audit recommendation, procedures have not been established to ensure differences are identified and properly resolved. As a result, the accounting records contain a negative accounts payable balance of \$36,269 at June 30, 1997. Based on our review of SBAS subsidiary ledgers, this balance resulted from unreconciled differences which occurred as far back as fiscal year 1993-94. These differences are outlined in the following table.

Table 5	
<u>Composition of Child Support Accounts Payable</u>	
As of June 30, 1997	
<u>Fiscal Year</u>	<u>Positive(Negative) Outstanding Payables</u>
1993-94	\$(19,404)
1994-95	5,139
1995-96	(68,268)
1996-97	<u>46,264</u>
Total Unreconciled Balance at June 30, 1997	<u>\$(36,269)</u>
Source: Compiled by the Legislative Audit Division from the Statewide Budgeting and Accounting System.	

The table illustrates the unreconciled balances remaining since fiscal year 1993-94. These unreconciled balances have accumulated to a net negative \$36,269 account payable on SBAS at June 30, 1997. This negative balance indicates PHHS potentially distributed more funds to custodial parents than was appropriate. According to PHHS personnel, reconciliation of the two systems has not been completed because it takes extensive time and effort. The cost of reconciling these systems is considered in the financial management issue summary beginning on page 27.

The potential exists for families to be underpaid or overpaid if CSED personnel do not perform timely reconciliations. In instances where an overpayment occurred, the ability to collect the overpayment may be limited depending on whether the recipient is still participating in the program. PHHS personnel should establish

Findings and Recommendations

procedures to ensure CSED personnel work with personnel from the TEAMS system to ensure custodial parents receive the proper benefits and the accounting records reflect the appropriate amount of payments made each month.

Recommendation #9

We recommend PHHS promptly reconcile and properly resolve the differences between payments authorized by SEARCHS and payments made by TEAMS.

Schedule of Federal Financial Assistance

PHHS fiscal personnel prepare a Schedule of Federal Financial Assistance (SFFA) each fiscal year. The schedule reports expenditures of federal funds listed by Catalog of Federal Domestic Assistance (CFDA) number. The Governor's Office compiles agency SFFA information into a single SFFA for the state of Montana. We audit and express an opinion on the state of Montana SFFA in our biennial Single Audit report.

Federal regulations require the recipients of federal assistance to report all federal financial assistance expended each fiscal year. The regulations require the state, including PHHS, to accurately report the expenditures for each assistance program by CFDA number. The expenditures for federal programs must be supported by SBAS.

During the past three audits of the Department of Social and Rehabilitation Services, we identified errors and omissions on the department's schedules of federal financial assistance. During the current PHHS audit, we identified similar errors on the SFFA submitted to the Governor's Office. The following paragraphs describe the errors.

We verified all of the information reported on the fiscal year 1996-97 SFFA. Of the 119 items included on this schedule, seven contained incorrect CFDA numbers, 19 had incorrect expenditure amounts, and one had an incorrect federal program name identified. The expenditure amount misstatements ranged in size from \$5,978 to \$3,604,900. We identified four additional programs with expenditures totaling \$85,807, which PHHS personnel had not

Findings and Recommendations

included on the SFFA. We noted similar errors on the fiscal year 1995-96 schedule.

The errors we noted could have been detected and prevented by adequate supervisory review procedures and by reconciling federal reports to SBAS. PHHS should establish procedures to ensure the accuracy and completeness of the amounts reported on the SFFA. These procedures should include timely verification that federal reports agree to SBAS. Differences should be researched and either corrected or documented if it is appropriate for the difference to exist.

Recommendation #10

We recommend PHHS establish review procedures to ensure an accurate and complete Schedule of Federal Financial Assistance is submitted to the Governor's Office.

Other Federal Compliance Issues

PHHS receives financial assistance from several federal agencies including the U.S. Departments of Agriculture, Education, Energy, Health & Human Services, Justice, and Veterans' Affairs. PHHS expended approximately \$490 million in federal financial assistance during fiscal year 1996-97. We performed tests to determine PHHS's compliance with selected federal regulations. We identified the following areas where PHHS could improve procedures to comply with federal laws and regulations.

Cash Management

The Cash Management Improvement Act of 1990 (CMIA) required the U.S. Secretary of the Treasury to enter into agreements with the states to establish terms and conditions for cash management for certain federal grant programs. The agreement with the state of Montana took effect on July 1, 1993. Several of the federal programs administered by PHHS are subject to the requirements of the agreement. For these programs, PHHS must draw funds based on a warrant clearance pattern established by the Montana Department of Administration. The clearance pattern is an estimate of the amount of time required for warrants to clear the bank. Drawing funds in accordance with the established clearance pattern provides assurance federal cash is appropriately managed.

Findings and Recommendations

For grants not subject to the requirements of the CMIA, federal regulations require PHHS to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of these funds. Cash should be drawn only in amounts necessary to meet immediate cash needs or to cover program disbursements already incurred.

We reviewed PHHS's procedures for requesting and expending federal funds in accordance with the CMIA and other applicable federal cash management regulations. The following paragraphs describe instances of noncompliance identified during our review.

Federal officials suspended certain federal government operations in the fall of 1995 due to disagreement over the proposed federal budget. Due to continued disagreement over the proposed budget, officials threatened to suspend federal government operations again in both January and March of 1996. In anticipation of the January and March suspensions, PHHS officials directed personnel to draw federal funds in excess of immediate cash needs to ensure availability of funds for certain federal financial assistance programs. The following table outlines the cash draws made in January and March 1996. PHHS officials told us the \$46 million in excess cash drawn in January 1996 was returned within three days after receipt.

Findings and Recommendations

Table 6

Federal Cash Requested in Excess of Immediate Need

<u>CFDA #</u>	<u>Program Name</u>	<u>January 1996</u>	<u>March 1996</u>	<u>Total</u>
U.S. Department of Health and Human Services				
93.044	Aging Support Services		\$ 454,110	\$ 454,110
93.119	Mental Health Statistics		30,000	30,000
93.125	Mental Health Plan & Demo Project		60,000	60,000
93.150	Homeless Block Grant		30,000	30,000
93.279	Alcohol and Drug Abuse Data Contract		20,000	20,000
93.560*	Aid to Families with Dependent Children	\$ 4,239,429	1,003,065	5,242,494
93.561*	Jobs Opportunity & Basic Skill Training	400,000	649,142	1,049,142
93.563*	Child Support Enforcement	500,000	500,000	1,000,000
93.568*	Low Income Home Energy Assistance Program	1,500,000	826,965	2,326,965
93.569	Community Services Block Grant		257,500	257,500
93.575	Child Care & Development Block Grant	800,000	481,604	1,281,604
93.656	Temporary Child Care & Crisis Nurseries		136,930	136,930
93.667*	Social Services Block Grant	383,940	855,847	1,239,787
93.674	Independent Living		966,386	966,386
93.778*	Medicaid	38,260,946	36,067,531	74,328,477
93.958	Mental Health Block Grant		100,000	100,000
93.959	Prevention and Treatment of Substance Abuse		380,000	380,000
93.991	Preventative Health Services		35,000	35,000
93.994	Maternal Child Health Block Grant		100,000	100,000
	Subtotal	<u>46,084,315</u>	<u>42,954,080</u>	<u>89,038,395</u>
U.S. Department of Education				
84.126*	Vocational Rehabilitation		500,000	500,000
84.128	Handicapped Migratory		2,000	2,000
84.169	Independent Living		75,000	75,000
84.181	Early Intervention		500,000	500,000
84.224	State Grants for Assistance Technology		50,000	50,000
84.265	In Service Training		20,000	20,000
	Subtotal		<u>1,147,000</u>	<u>1,147,000</u>
U.S. Department of Agriculture				
10.551	Food Stamps		6,000	6,000
10.557*	Women, Infants, and Children		245,966	245,966
10.558*	Child Nutrition and Food		481,000	481,000
10.561*	Food Stamp Administration	200,000		200,000
10.569	Food Commodities	<u>100,000</u>		<u>100,000</u>
	Subtotal	<u>300,000</u>	<u>732,966</u>	<u>1,032,966</u>
U.S. Department of Energy				
81.042	Weatherization Assistance		<u>350,000</u>	<u>350,000</u>
	Subtotal		<u>350,000</u>	<u>350,000</u>
Social Security Administration				
96.001*	Social Security - Disability Insurance		<u>193,363</u>	<u>193,363</u>
	Subtotal		<u>193,363</u>	<u>193,363</u>
U.S. Department of Housing and Urban Development				
14.231	Emergency Shelter		<u>100,000</u>	<u>100,000</u>
	Subtotal		<u>100,000</u>	<u>100,000</u>
	Total	<u>\$46,384,315</u>	<u>\$45,477,409</u>	<u>\$91,861,724</u>

* Program is subject to the requirements of the Cash Management Improvement Act

Source: Compiled by the Legislative Audit Division from PHHS records.

Findings and Recommendations

PHHS did not comply with the CMIA and other federal regulations applicable to the management of federal cash because the draws either were not made in accordance with the clearance patterns established in the CMIA or were in excess of immediate cash needs. Similar cash management issues were addressed in the prior audits of the Departments of Social and Rehabilitation Services, Family Services, and Health and Environmental Sciences.

The CMIA requires the state to calculate the amount of interest lost to the federal government as a result of drawing excess cash for the federal programs covered by the state's CMIA agreement. A department official familiar with the state's CMIA agreement told us the interest rate used for the calculation was 5.31 percent. This rate was similar to the treasury fund yield which was approximately five percent in fiscal year 1995-96. In effect, the state paid about the same amount of interest it earned on the excess cash. The state paid the federal government \$380,330 for PHHS excess cash draws in fiscal year 1995-96, \$343,391 of which was for excess cash draws in the Medicaid program. PHHS should comply with federal laws and regulations applicable to proper management of federal cash.

Recommendation #11

We recommend PHHS comply with the Cash Management Improvement Act and other federal regulations applicable to the management of federal cash.

Subrecipient Monitoring

PHHS contracted with another state agency to provide nutrition education to participants in the Food Distributions on Indian Reservations (CFDA #10.567) program. PHHS advanced the entire fiscal year 1995-96 contract amount of \$118,522 to the contractor. Although the contract required the contractor to submit quarterly financial status reports, PHHS did not enforce this requirement. These reports were not submitted to PHHS until May 1997 when we inquired about them. According to the contractor's report for the quarter ended June 30, 1996, the contractor expended only \$114,364 of the advance. In May 1997, the contractor sought permission to apply the unexpended balance of \$4,158 to the fiscal year 1996-97

Findings and Recommendations

contract. There is no formal documentation that PHHS personnel consented to the contractor's request.

The Single Audit Act requires PHHS to monitor subrecipients of its federal financial assistance programs. In addition, federal regulations indicate that to be allowable, costs must be incurred in the grant award period. Had the contractor been properly monitored, PHHS personnel would have determined in a timely manner that the grant award was not fully expended and that the contractor had not complied with applicable reporting requirements. Because PHHS did not clearly authorize the contractor to carry the excess funds over to the next grant period, the use of the funds by the contractor is not allowable. Therefore, we question \$4,158 of expenditures charged by PHHS to the Food Distributions on Indian Reservations program. PHHS personnel should seek reimbursement of the \$4,158 from the contractor and reimburse the federal government.

Recommendation #12

We recommend PHHS:

- A. Establish procedures to ensure compliance with federal laws and regulations related to subrecipient monitoring.
- B. Seek reimbursement of the \$4,158 from the contractor.
- C. Reimburse the federal government \$4,158.

Debarred and Suspended Parties

The federal government has designated certain vendors and contractors as ineligible for participation in federal financial assistance programs. Federal regulations prohibit PHHS from contracting with these debarred and suspended parties. We reviewed PHHS's procedures for complying with these regulations and determined procedures are adequate for identifying debarred or suspended Medicaid providers, but not for other contractors. PHHS personnel require non-provider contractors to certify that they are not debarred or suspended but do not verify the accuracy of these certifications.

Findings and Recommendations

PHHS personnel indicated the department's Contracts Task Force is in the process of establishing uniform contracting requirements for PHHS. The Task Force anticipates designing a system which will allow PHHS personnel to electronically verify the accuracy of contractor certifications. PHHS personnel indicated there is no target date for implementation of this system. Because verification procedures have not been established, PHHS is not complying with federal regulations. We believe PHHS could comply with federal regulations by manually comparing the federal list of debarred and suspended parties to the certifications obtained from its contractors. This list is available from the federal government at an approximate annual cost of \$80. We do not believe the personal services cost associated with such a review would be significant.

Recommendation #13

We recommend PHHS comply with federal regulations concerning debarred and suspended parties.

Resolution of Quality Control Findings

The Quality Assurance Division conducts quality control reviews for the Medicaid (CFDA #93.778), Aid to Families with Dependent Children (CFDA #93.560), and Food Stamps (CFDA #10.551) programs. These reviews determine the accuracy of recipient eligibility and benefit determinations. Federal regulations require PHHS to take corrective action, including recovery of overpayments, on any errors that are identified. We reviewed 20 files to determine whether errors are resolved in accordance with federal regulations. We identified two files with combined overawards of \$475 for the Aid to Families with Dependent Children program, that had not been resolved or recovered.

We determined that division personnel communicate their findings to the county welfare offices. County personnel are responsible for reviewing the findings and entering any overpayments on TEAMS for offset against future benefits. If county personnel disagree with the findings, they are required to notify the division. These notifications are filed and no further follow-up is performed to determine if the county's decision is appropriate. County personnel disagreed with quality control reviewers on the overawards

Findings and Recommendations

identified above. According to county personnel, the overawards are either uncollectible or additional information exists to show it was not actually an overaward. Because PHHS does not have adequate error resolution procedures, it cannot ensure corrective action is taken on all errors and recovery of all identified overpayments is unlikely.

After this issue was brought to their attention, division personnel implemented additional error resolution procedures. According to division personnel, the new procedures are designed to make the quality control reviewers and county workers work together more closely prior to finalization of an issue.

We believe PHHS should establish administrative procedures to ensure quality control findings are fully resolved in accordance with federal regulations.

Recommendation #14

We recommend PHHS ensure its quality control resolution procedures comply with federal regulations.

Allocation of Operating Costs to Food Commodities

PHHS maintains a warehouse for food commodity program inventories. Commodities for the following programs are housed at the warehouse: Food Commodities (CFDA #10.569), Food Distributions on Indian Reservations (CFDA #10.567), Summer Food Service Program (CFDA #10.559), Nutrition Program for the Elderly (CFDA #10.570), and Food Commodities for Soup Kitchens (CFDA #10.571).

In April 1995, PHHS also became a storage and shipping point for commodities going to Indian reservations in the western region of the United States. In August 1996, PHHS began handling Food Distribution (CFDA #10.550) for the School Lunch Program administered by the Office of Public Instruction.

The warehouse operating costs are allocated among all PHHS programs that benefit from its use. Rent is allocated by the amount of physical space used while personnel and shipping costs are

Findings and Recommendations

allocated based on the volume of commodities handled. PHHS bills the Office of Public Instruction a handling fee. This handling fee is used to offset the costs charged to the remaining commodities programs. Federal regulations specify that to be allowable, costs must be fairly allocated between programs when more than one program benefits from services provided.

We reviewed PHHS's procedures for allocating the warehouse operating costs. We determined the allocation methodology was last updated in 1993 and does not reflect certain changes in programs, staffing, and facilities. Since 1993, FTE increased due to handling commodities for the Indian reservations and the Office of Public Instruction. In addition, the commodities inventories were moved to a new warehouse. PHHS has also seen increased activity in the Food Commodities for Soup Kitchens program in comparison with the other programs served. As a result of these changes, we believe the administrative cost allocation may not comply with federal regulations and certain costs may not be allowable for the programs charged. PHHS should review and modify its cost allocation methodology to ensure costs are fairly allocated among programs.

Recommendation #15

We recommend PHHS review and revise its cost allocations to the food commodity programs to ensure compliance with federal regulations.

Women, Infants, and Children Federal Financial Reports

The Women, Infants, and Children (WIC) (CFDA #10.557) program provides eligible recipients with coupons which can be redeemed for approved food items at local grocery stores. PHHS is required to submit monthly and annual financial status reports showing the amount of coupons redeemed for the program. PHHS maintains a computer system which generates summary reports of monthly program activity. PHHS personnel use the system's coupon resolution report to prepare monthly federal reports and the posting summary report to prepare annual federal reports.

We reviewed three of the monthly federal reports prepared during our audit period. We determined that while the coupon resolution

Findings and Recommendations

report agrees to the monthly bank statement showing the amount of coupons redeemed, the posting summary report does not always produce reliable amounts. The November 1996 posting summary report showed \$862,588 in redeemed coupons while the resolution report showed \$787,417, a difference of \$75,171. The February 1997 and August 1997 reports contained differences of \$74.65 and \$54.64, respectively. Because of these differences, we have no assurance over the accuracy of the amounts reported on the monthly federal reports.

PHHS personnel indicated they use the coupon resolution report to prepare the monthly federal reports because it is the only system report that identifies the number of coupons issued and redeemed each month. PHHS personnel use the posting summary report to ensure the annual federal reports accurately reflect the total number of coupons redeemed. PHHS personnel should ensure the computer system generates accurate information. Correcting the logic used to generate the monthly reports should reduce the time required to adjust the information for the annual federal reports.

Recommendation #16

We recommend PHHS ensure the WIC computer system generates accurate and consistent summary reports.

Questioned Costs for Temporary Assistance to Needy Families Program

Temporary Assistance to Needy Families (TANF) (CFDA #93.558) is a federal block grant that funds Montana's welfare program. PHHS began administering this grant during fiscal year 1996-97. TANF replaced several federal financial assistance programs previously administered by PHHS, including the Aid to Families with Dependent Children (AFDC) (CFDA #93.560) program. During fiscal year 1996-97, both TANF and AFDC were administered by PHHS in order to meet the needs of low-income families and children. PHHS used the TEAMS computer system to perform the eligibility and benefit determinations for both programs.

We reviewed the expenditure activity related to the TANF and AFDC programs during our audit. We identified a programming error within the TEAMS computer system which charged certain

Findings and Recommendations

AFDC activity to the TANF program. Federal regulations require PHHS to maintain an accounting system which accumulates and accurately summarizes accounting transactions for the purpose of financial reporting. As a result of the error, AFDC was undercharged and TANF was overcharged by at least \$3,322 in fiscal year 1996-97. We question the \$3,322 charged to the TANF program. We were unable to determine the total amount of AFDC activity charged to TANF. PHHS personnel have requested programming assistance to determine the total amount of the misstatements.

Recommendation #17

We recommend PHHS:

- A. Modify the TEAMS programming to ensure expenditures are properly charged to the AFDC and TANF programs.
- B. Calculate the amount of AFDC activity charged to TANF, process the necessary transactions to correct the accounting records, and submit revised federal reports.

Misuse of Restricted Appropriation

PHHS transferred \$38,800 of fiscal year 1995-96 appropriation authority to pay at-risk child care administration costs when the authority was restricted to paying child care benefits. Both appropriations were within the General Fund. The general appropriation bill for the 1996-1997 biennium (House Bill No. 2) stated the appropriation ". . . may be used only to fund child care benefit costs for families who are at risk of becoming eligible for AFDC. Funds . . . may not be used for any other purpose, transferred to any other use in the department, or transferred to another department."

We reported a similar issue in the Department of Family Services audit report (95-10). PHHS should provide for a review of the work performed by its budget analysts to ensure transfers of appropriation authority do not result in non-compliance with specific, restrictive language contained in appropriation bills.

Findings and Recommendations

Recommendation #18

We recommend PHHS:

- A. Implement procedures to ensure it spends in accordance with specific, restrictive language contained in appropriation bills.
- B. Revert \$38,800 to the General Fund.

State Compliance

We tested compliance with state laws and regulations related to PHHS operations. The following five sections discuss instances of noncompliance with state law.

Reporting Theft

Section 5-13-309(3), MCA, requires state agencies to report incidents of theft, or suspected theft, of state property under the agencies' control in writing, upon discovery, to both the state Attorney General and the Legislative Audit Division.

We determined PHHS does not have procedures in place to ensure compliance with this law. PHHS personnel located outside Helena did not report the thefts of two pieces of equipment, valued at \$2,429 and \$3,762, respectively, to the Attorney General or the Legislative Audit Division. These personnel were not aware that state law required such notice. We addressed similar instances of unreported theft in the prior two audits of the Department of Corrections. PHHS personnel can ensure compliance with state law by establishing procedures to be followed when a theft occurs and ensure employees are notified of these procedures.

Recommendation #19

We recommend PHHS establish procedures for reporting theft in accordance with state law and communicate those procedures to all employees.

Findings and Recommendations

Report on Medicaid Funding

Section 53-6-110, MCA, requires PHHS to prepare and submit a report concerning Medicaid funding with the agency budget request for each biennium. Among other items, this report must identify the effects of projected population growth and demographic patterns. Specifically, PHHS must address trends in unit costs for services including inflation, use of services, and Medicaid recipient levels. The report must also describe the effects of new and projected facilities and services for which a need has been identified in the state health care facilities plan.

We determined that although PHHS personnel prepare and submit a report concerning Medicaid funding to the legislature, the report does not address the effects of projected population growth and demographic patterns. PHHS personnel indicated the information contained in the report submitted to the legislature has been adequate in the past for use in projecting Medicaid costs.

Recommendation #20

We recommend PHHS comply with the reporting requirements in section 53-6-110, MCA.

Payroll Corrections Made Due to Untimely Sub- mission of Time Sheets

PHHS employees are responsible for submitting time sheets at the end of each pay period. If an employee is unable to submit a time sheet in a timely manner, PHHS payroll personnel process payroll using the time sheet submitted by the employee for the previous pay period. Payroll personnel then adjust the payroll records to reflect the actual total direct and leave time reported when the current time sheet is received. Payroll personnel do not, however, compare the detail of the direct hours worked to ensure there were no changes between pay periods. Federal regulations state that for personal services costs to be allowable to a federal program, they must be necessary, reasonable, and directly related to the program charged. Many employees perform duties for multiple federal and state programs. An employee's allocation of time among these grants can vary between pay periods. For federal and state programs to be appropriately charged for the direct time worked, the detail of the direct hours worked must be correct.

Findings and Recommendations

We identified one instance where personal service costs were inappropriately charged to a privately funded program and a federal program in fiscal year 1997-98. We question \$305 charged to the Foster Care (CFDA #93.658) program. The private Kellogg grant was overcharged \$766. Because no review and correction procedures for payroll charges exist at PHHS, we believe more unallowable costs to federal programs have occurred. It was not practicable to review all of the time sheets for the audit period to determine the amount of potential questioned costs. PHHS personnel should establish procedures to ensure personal service costs charged to federal programs are supported by the time sheets submitted by the employees.

Recommendation #21

We recommend PHHS establish procedures to ensure payroll is processed according to time sheets submitted for the current pay period.

Distribution of Alcohol Tax Proceeds

In accordance with section 53-24-206, MCA, PHHS is responsible for distributing the proceeds of alcohol taxes collected by the state. PHHS first grants a portion of these funds to private, nonprofit or public programs addressing alcoholism. The remaining proceeds are distributed to the counties for the same purpose. The distribution of these proceeds is accounted for in the Addictive and Mental Disorders Division program.

We determined PHHS under-distributed alcohol tax proceeds to counties by \$555,177 in fiscal year 1995-96 and \$91,699 in fiscal year 1996-97. Sale of state liquor store inventories to private owners created a one-time increase in alcohol tax revenue during fiscal year 1995-96. PHHS personnel believed it was important to keep funding fairly level to counties, so they did not change the amounts they planned to distribute to the counties for fiscal years 1995-96 and 1996-97. PHHS personnel said they increased the amounts they plan to distribute to the counties in fiscal years 1997-98 and 1998-99 in order to reduce this excess.

Findings and Recommendations

PHHS personnel did not record a liability on SBAS in the Special Revenue Fund for the proceeds due to the counties. As a result, Local Assistance expenditures are understated by \$555,177 in fiscal year 1995-96 and \$91,699 in fiscal year 1996-97. Due to Local Governments is understated and Fund Balance is overstated by \$555,177 and \$646,876 at June 30, 1996 and 1997, respectively.

Recommendation #22

We recommend PHHS comply with state law by distributing all remaining alcohol taxes to counties.

Statutory Appropriations

Effective for fiscal year 1995-96, section 17-1-508(3), MCA, requires the legislative auditor to review statutory appropriations to the agency as part of each agency audit and report any instances where statutory appropriations do not appear consistent with guidelines set forth in state law. Section 17-1-508(4), MCA, contains the following guidelines:

- ▶ The activity requires an appropriation.
- ▶ The funding source is not continuing, reliable, and estimable.
- ▶ The expenditure or disbursement activity is not predictable and reliable.
- ▶ The authority does not exist elsewhere.
- ▶ An alternative appropriation method is not available, practical, or effective.
- ▶ Other than for emergency purposes, it does not appropriate money from the state General Fund.
- ▶ The money is dedicated for a specific use.
- ▶ The legislature wishes the activity to be funded on a continual basis.
- ▶ When feasible, the activity has an expenditure cap and sunset date.

Seven statutory appropriations were in effect for PHHS for fiscal years 1995-96 and 1996-97. The 1997 Legislature amended state law and eliminated four of these statutory appropriations effective for fiscal year 1997-98. We reviewed the three remaining appropriations for consistency with the guidelines established in state law. We determined these statutory appropriations were not consistent

Findings and Recommendations

with the above guidelines for the reasons discussed in the following paragraphs.

Tobacco Education Fees

Section 16-11-308, MCA, establishes a statutory appropriation for the use of tobacco education fees. PHHS is directed to use one-half of these funds to defray the costs of its tobacco education programs. At June 30, 1997, the Tobacco Education Fees account had a cash balance of \$968. During the audit period, PHHS established no appropriation and expended no money from the account. Due to the meager amount of funds involved, it may be more practical to budget this activity in the general appropriations bill. In addition, the low volume of receipts in this account indicates legislative review of this program may be warranted to reconsider its viability.

Alcohol Tax Proceeds

Section 53-24-206, MCA, establishes a statutory appropriation for distribution of the alcohol tax proceeds collected by the state. As discussed on page 62 of this audit report, PHHS under-distributed a total of \$646,876 in alcohol tax proceeds to counties during fiscal years 1995-96 and 1996-97 due to a one-time increase in alcohol tax revenue during fiscal year 1995-96 that PHHS personnel did not anticipate. We believe it is likely the additional revenue would have been anticipated had this distribution been considered as part of the general appropriations bill. PHHS personnel indicated the revenue is generally continuing, reliable, and estimable and the related expenditure activity is usually predictable and reliable. In addition, the legislature already appropriates a portion of the alcohol tax proceeds through the general appropriations process.

Energy Conservation and Assistance Accounts

Section 90-4-215, MCA, establishes a statutory appropriation for three energy conservation and assistance accounts administered by PHHS. PHHS expended a total of \$69,694 from one of the three accounts during fiscal years 1995-96 and 1996-97. These expenditures were charged against an appropriation established during the 1995 Legislative session rather than the statutory appropriation provided for in state law. The 1997 Legislature also established appropriations for fiscal years 1997-98 and 1998-99 which are outside the statutory authority available for this account. There were no appropriations established or expenditures incurred in the other two accounts.

Findings and Recommendations

Summary

We believe PHHS personnel should work with the Office of Budget and Program Planning via the executive budget process and requests for legislation to eliminate statutory appropriations for tobacco education fees, alcohol tax distributions, and amounts deposited in the energy conservation and assistance accounts.

Recommendation #23

We recommend PHHS work with the Office of Budget and Program Planning to eliminate statutory appropriations for tobacco education fees, alcohol tax distributions, and amounts deposited in the energy conservation and assistance accounts.

Invalid Fund Transfer - Prior Audit Recommendation

During the 1994-95 fiscal year-end period, the Department of Family Services recorded valid costs of federal programs as expenditures of the General Fund. As a result, expenditures were overstated in the General Fund and understated in the federal Special Revenue Fund by \$24,921. Fund balance was understated in the General Fund and overstated in the federal Special Revenue Fund by \$24,921. Fiscal personnel said the expenditure recording errors resulted from transactions entered to adjust appropriation balances. We addressed these errors in an audit recommendation during the prior audit of the Department of Family Services.

PHHS personnel were unable to provide documentation showing an adjustment to correct these errors was made in either fiscal year 1995-96 or fiscal year 1996-97. As a result, fiscal year 1995-96 and 1996-97 beginning and ending fund balances are understated in the General Fund and overstated in the Special Revenue Fund by \$24,921. PHHS should transfer \$24,921 from the federal Special Revenue Fund to the General Fund.

Recommendation #24

We recommend PHHS transfer \$24,921 from the federal Special Revenue Fund to the General Fund.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Public Health and Human Services for each of the two fiscal years ended June 30, 1996 and 1997, as presented on pages A-5 through page A-24. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

The department classified \$58,806,566 of food stamp expenditures as Other Expenses in fiscal year 1995-96. As discussed in note 5, this classification was done in accordance with state policy; however, these expenditures are Benefits and Claims From Federal Sources. Other Expenses are overstated and Benefits and Claims From Federal Sources are understated by \$58,806,566 in the Child and Family Services Division program.

The department improperly accrued operating expenditures related to systems maintenance contracts in the Operations and Technology Division program in fiscal year 1996-97. Consequently, General Fund and Special Revenue Fund Other Services expenditures are overstated by \$3,968,837 and \$5,673,412, respectively. The June 30, 1997 fund balances are understated by the same amounts.

The department did not record \$2,715,607 of accounts receivable related to Medicaid drug rebates at June 30, 1997. This resulted in overstatements of Health and Policy Services Division program Benefits and

Claims expenditures of \$841,567 and \$1,874,040 in the General Fund and the Special Revenue Fund, respectively, with corresponding understatements of June 30, 1997 fund balances.

The department did not record all the financial activity necessary to properly accrue and defer revenue in the Special Revenue Fund at June 30, 1997. Nonbudgeted transfers in and nonbudgeted transfers out were overstated by \$1,147,000. Federal Assistance revenue was understated by \$5,673,661. The June 30, 1997 fund balance was understated by \$5,673,661.

The department's procedures for processing expenditure transactions caused a misclassification of grant expenditures between Grants from Federal Sources and Grants from State Sources in the Addictive and Mental Disorders Division program in both fiscal years 1995-96 and 1996-97. Grants from State Sources are understated by \$157,355 and \$5,475,510 and Grants from Federal Sources are overstated by those same amounts for fiscal years 1995-96 and 1996-97, respectively.

The department established an Agency Fund to account for the Veterans' Administration nursing care reimbursements associated with the Eastern Montana Veterans' Home. This activity is not fiduciary in nature and should be accounted for in a federal Special Revenue Fund account. Miscellaneous revenues and Senior and Long-term Care Services program Grants expenditures are overstated in the Agency Fund by \$211,371 for fiscal year 1995-96 and \$589,407 for fiscal year 1996-97. Federal Assistance revenues and Senior and Long-term Care Services program Grants expenditures are understated in the Special Revenue Fund by the same amounts.

As part of the department's reorganization activities, it underwent a conversion to a new account structure. The method used to achieve the conversion created Agency Fund additions and reductions to Property Held in Trust which were not true additions or reductions. The fiscal year 1995-96 additions and reductions to Property Held in Trust are overstated by \$1,372,070.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial schedules referred to above do not present fairly, in conformity with the basis of accounting described in note 1, the results of operations and changes in fund balances and property held in trust of the Department of Public Health and Human Services for the two fiscal years ended June 30, 1996 and 1997.

Respectfully submitted,

"Signature on File"

James Gillett, CPA
Deputy Legislative Auditor

November 28, 1997

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 1996	\$ (19,503,546)	\$ 5,877,570	\$ 1,175,034	\$ 436,698	\$ 0
PROPERTY HELD IN TRUST: July 1, 1996					\$ 991,408
ADDITIONS					
Budgeted Revenues & Transfers-In	11,969,145	453,686,080			
Nonbudgeted Revenues & Transfers-In	204,658	91,080,769	3,823,729		589,407
Prior Year Revenues & Transfers-In Adjustments	10,207	(5,554,321)		(980)	
Cash Transfers In (Out)	214,921,810	2,433,566			
Direct Entries to Fund Balance	2,515,785	8,976,666			
Additions to Property Held in Trust					36,906,852
Total Additions	229,621,605	550,622,760	3,823,729	(980)	37,496,259
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	227,588,043	470,528,210		438,846	
Nonbudgeted Expenditures & Transfers-Out	249,123	92,702,734	1,090,201		589,407
Prior Year Expenditures & Transfers-Out Adjustments	171,314	(2,519,313)		(3,128)	
Reductions to Property Held in Trust					36,598,075
Total Reductions	228,008,480	560,711,631	1,090,201	435,718	37,187,482
FUND BALANCE: June 30, 1997	\$ (17,890,421)	\$ (4,211,301)	\$ 3,908,562	\$ 0	\$ 0
PROPERTY HELD IN TRUST: June 30, 1997					\$ 1,300,185

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 1995	\$ (16,212,838)	\$ 3,003,904	\$ 0	\$ 0	\$ 0
PROPERTY HELD IN TRUST: July 1, 1995					\$ 582,656
ADDITIONS					
Budgeted Revenues & Transfers-In	16,865,868	461,262,767		(600)	
Nonbudgeted Revenues & Transfers-In	1,825,423	90,027,124	218,113	530,215	211,371
Prior Year Revenues & Transfers-In Adjustments	(82,353)	3,432,210	2,488,538	597	
Cash Transfers In (Out)	200,968,515	6,805,990		277,000	
Direct Entries to Fund Balance	(7,408,168)	1,015,255			
Additions to Property Held in Trust					33,532,425
Total Additions	212,169,285	562,543,346	2,706,651	807,212	33,743,796
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	215,868,850	466,117,635		370,514	
Nonbudgeted Expenditures & Transfers-Out	1,313,091	90,789,376	873,604		211,371
Prior Year Expenditures & Transfers-Out Adjustments	(1,721,948)	2,762,669	658,013		
Reductions to Property Held in Trust					33,123,673
Total Reductions	215,459,993	559,669,680	1,531,617	370,514	33,335,044
FUND BALANCE: June 30, 1996	\$ (19,503,546)	\$ 5,877,570	\$ 1,175,034	\$ 436,698	\$ 0
PROPERTY HELD IN TRUST: June 30, 1996					\$ 991,408

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$ 159,644	\$ 540,012					\$ 699,656
Taxes		7,934,220					7,934,220
Charges for Services	11,917,324	21,802,365					33,719,689
Investment Earnings		131,381	\$ 120,517				251,898
Fines and Forfeits	4,632						4,632
Sale of Documents, Merchandise and Property	2,213	169,155					171,368
Rentals, Leases and Royalties	72,725						72,725
Contributions and Premiums		76,230					76,230
Miscellaneous	17,922	22,223			\$ 589,407		629,552
Grants, Contracts, Donations and Abandonments		1,111,553					1,111,553
Other Financing Sources	10,394	35,073,232	3,703,212	\$ (980)			38,785,858
Federal	(844)	472,352,157					472,351,313
Total Revenues & Transfers-In	<u>12,184,010</u>	<u>539,212,528</u>	<u>3,823,729</u>	<u>(980)</u>	<u>589,407</u>	<u>\$ 0</u>	<u>555,808,694</u>
Less: Nonbudgeted Revenues & Transfers-In	204,658	91,080,769	3,823,729		589,407		95,698,563
Prior Year Revenues & Transfers-In Adjustments	<u>10,207</u>	<u>(5,554,321)</u>		<u>(980)</u>			<u>(5,545,094)</u>
Actual Budgeted Revenues & Transfers-In	11,969,145	453,686,080	0	0	0	0	465,655,225
Estimated Revenues & Transfers-In	16,543,321	484,310,872	2,200,000		58,411	15,000	503,127,604
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (4,574,176)</u>	<u>\$ (30,624,792)</u>	<u>\$ (2,200,000)</u>	<u>\$ 0</u>	<u>\$ (58,411)</u>	<u>\$ (15,000)</u>	<u>\$ (37,472,379)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$ (15,764)	\$ (342,198)					\$ (357,962)
Taxes		1,262,461					1,262,461
Charges for Services	(4,603,039)	(15,943,778)			\$ (54,962)		(20,601,779)
Investment Earnings		33,244			(3,449)		29,795
Fines and Forfeits	(368)	(10,000)					(10,368)
Sale of Documents, Merchandise and Property	788	(19,335)					(18,547)
Rentals, Leases and Royalties	6,219						6,219
Contributions and Premiums		(180,781)					(180,781)
Miscellaneous	37,988	(7,747)					30,241
Grants, Contracts, Donations and Abandonments		(51,070)				\$ (15,000)	(66,070)
Other Financing Sources		(23,838)	\$ (2,200,000)				(2,223,838)
Federal		(15,341,750)					(15,341,750)
Budgeted Revenues & Transfers-In Over (under) Estimated	<u>\$ (4,574,176)</u>	<u>\$ (30,624,792)</u>	<u>\$ (2,200,000)</u>	<u>\$ 0</u>	<u>\$ (58,411)</u>	<u>\$ (15,000)</u>	<u>\$ (37,472,379)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	General Fund	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Agency Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	\$ 190,790	\$ 516,159					\$ 706,949
Taxes		6,820,641					6,820,641
Charges for Services	16,247,834	12,939,547					29,187,381
Investment Earnings		134,320	\$ 670,615				804,935
Fines and Forfeits	6,024						6,024
Federal Indirect Cost Recoveries	2	2,846		\$ (3)			2,845
Sale of Documents, Merchandise and Property	1,517	189,849					191,366
Rentals,Leases and Royalties	73,878						73,878
Contributions and Premiums		261,484					261,484
Miscellaneous	220,933	22,737			\$ 211,371		455,041
Grants, Contracts, Donations and Abandonments		767,042					767,042
Other Financing Sources	1,821,774	33,407,302	2,036,036	530,215			37,795,327
Federal	46,186	499,660,174					499,706,360
Total Revenues & Transfers-In	18,608,938	554,722,101	2,706,651	530,212	211,371	\$ 0	576,779,273
Less: Nonbudgeted Revenues & Transfers-In	1,825,423	90,027,124	218,113	530,215	211,371		92,812,246
Prior Year Revenues & Transfers-In Adjustments	(82,353)	3,432,210	2,488,538	597			5,838,992
Actual Budgeted Revenues & Transfers-In	16,865,868	461,262,767	0	(600)	0	0	478,128,035
Estimated Revenues & Transfers-In	16,389,956	497,549,506		400,000	58,411	15,000	514,412,873
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 475,912	\$ (36,286,739)	\$ 0	\$ (400,600)	\$ (58,411)	\$ (15,000)	\$ (36,284,838)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	\$ 30,885	\$ (367,201)					\$ (336,316)
Taxes		142,011					142,011
Charges for Services	289,034	(2,144,272)			\$ (54,962)		(1,910,200)
Investment Earnings		52,974			(3,449)		49,525
Fines and Forfeits	1,024						1,024
Federal Indirect Cost Recoveries		(300,000)		\$ (400,600)			(700,600)
Sale of Documents, Merchandise and Property	(51)	(830)					(881)
Rentals,Leases and Royalties	7,370						7,370
Contributions and Premiums		67,340					67,340
Miscellaneous	147,650	(7,283)					140,367
Grants, Contracts, Donations and Abandonments		(353,519)				\$ (15,000)	(368,519)
Other Financing Sources		(42,025)					(42,025)
Federal		(33,333,934)					(33,333,934)
Budgeted Revenues & Transfers-In Over (under) Estimated	\$ 475,912	\$ (36,286,739)	\$ 0	\$ (400,600)	\$ (58,411)	\$ (15,000)	\$ (36,284,838)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997.

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Child & Family Services Division	Director's Office	Child Support Enforcement Division	Health & Policy Services Division	Division Of Quality Assurance	Operations & Technology Division	Disability Services Division	Senior & Long-Term Care Division	Addictive & Mental Disorders Division	Director's Office/Health	Central Services/Health	Health Facilities Division	Total
Personal Services													
Salaries	\$ 21,328,671	\$ 1,062,393	\$ 4,758,771	\$ 3,609,370	\$ 2,677,339	\$ 4,057,281	\$ 15,238,628	\$ 2,913,965	\$ 16,471,256				\$ 72,117,674
Other Compensation	6,570			(300)			8,500						14,770
Employee Benefits	5,568,885	212,779	1,227,187	862,354	658,135	982,309	5,237,014	981,509	6,505,017				22,235,189
Total	26,904,126	1,275,172	5,985,958	4,471,424	3,335,474	5,039,590	20,484,142	3,895,474	22,976,273				94,367,633
Operating Expenses													
Other Services	3,669,028	437,837	1,565,343	8,643,271	390,869	28,899,190	1,830,578	1,435,348	1,776,126				48,747,590
Supplies & Materials	504,012	113,992	139,967	530,912	56,507	536,112	982,797	503,388	1,961,767				5,329,434
Communications	917,180	47,548	595,839	237,455	77,747	826,572	340,809	77,160	134,678				3,254,988
Travel	1,195,543	52,852	62,210	380,702	165,829		242,473	71,656	89,245				2,346,545
Rent	1,214,327	75,069	354,054	165,707	120,200	357,465	413,594	63,847	366,571				3,130,834
Utilities	39,577	1,137		209	3,273	190	260,220	99,033	665,442				1,065,061
Repair & Maintenance	120,766	10,267	44,789	24,097	18,293	144,821	127,026	122,313	274,506		(1,776)		885,102
Other Expenses	91,883	43,557	131,321	120,554	10,661	557,390	77,981	120,027	250,101	\$ (767)			1,402,708
Goods Purchased For Resale	16						31,513	14,287	107,521				153,337
Total	7,752,332	782,259	2,893,513	10,102,907	843,379	31,407,775	4,406,991	2,507,059	5,625,947	(767)	(1,776)		66,319,619
Equipment & Intangible Assets													
Equipment	174,745	34,009	189,490	381,695	60,870	491,555	171,548	87,413	68,074	(585)			1,658,814
Intangible Assets			12,778	5,839		68,427	37,693						124,737
Installment Purchases - Equipment						(64,479)	8,568						(55,911)
Total	174,745	34,009	202,268	387,534	60,870	495,503	217,809	87,413	68,074	(585)			1,727,640
Capital Outlay													
Other Improvements						16,616							16,616
Total						16,616							16,616
Local Assistance													
From State Sources									999,981				999,981
From Federal Sources			8,658										8,658
Total			8,658						999,981				1,008,639
Grants													
From State Sources	145,756			3			26,975	783,327	9,243,492				10,199,553
From Federal Sources	12,566,132			4,614,537				5,054,388	10,448,554				32,683,611
From Other Sources				434,627									434,627
Total	12,711,888			5,049,167			26,975	5,837,715	19,692,046				43,317,791
Benefits & Claims													
To Individuals	79,710,497		(1,909)	182,060,478			55,347,674	135,645,585	27,973,761				480,736,086
From Federal Sources	57,202,536			5,683,778									62,886,314
From Other Sources	(1,214)			(2,021)									(3,235)
Payments To Group Homes	295												295
Insurance Payments	937												937
Total	136,813,051		(1,909)	187,742,235			55,347,674	135,645,585	27,973,761				543,620,387
Transfers													
Accounting Entity Transfers	20,571,263	(705,239)	2,749,890	6,360,711	911,136	(4,526,746)	4,451,231	431,262	8,748,440		2,954		38,994,902
Total	20,571,263	(705,239)	2,749,890	6,360,711	911,136	(4,526,746)	4,451,231	431,262	8,748,440		2,954		38,994,902
Debt Service													
Loans	20,362						13,665						34,027
Leases						278,424	40,950						319,374
Installment Purchases						12,657	1,076,535	19,607					1,108,799
Total	20,362					291,081	1,131,150	19,607					1,462,200
Total Program Expenditures & Transfers-Out	\$ 205,047,767	\$ 1,386,201	\$ 11,838,378	\$ 214,113,978	\$ 5,150,859	\$ 32,723,819	\$ 86,065,972	\$ 148,424,115	\$ 86,084,522	\$ (1,352)	\$ (1,776)	\$ 2,954	\$ 790,836,437
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 41,838,834	\$ 159,632	\$ 443,419	\$ 50,890,156	\$ 1,219,557	\$ 8,812,469	\$ 39,904,976	\$ 41,105,341	\$ 43,634,096				\$ 228,008,480
Special Revenue Fund	163,208,833	1,226,569	11,394,959	163,223,822	3,931,302	23,472,504	45,070,795	106,729,367	42,450,426			\$ 2,954	560,711,631
Debt Service Fund							1,090,201						1,090,201
Internal Service Fund						438,846				(1,352)	(1,776)		435,718
Agency Fund								589,407					589,407
Total Program Expenditures & Transfers-Out	205,047,767	1,386,201	11,838,378	214,113,978	5,150,859	32,723,819	86,065,972	148,424,115	86,084,522	(1,352)	(1,776)	2,954	790,836,437
Less: Nonbudgeted Expenditures & Transfers-Out	77,919,854	(706,318)	2,679,519	5,824,467	962,598	(4,077,307)	4,453,433	1,022,498	6,549,768			2,954	94,631,465
Prior Year Expenditures & Transfers-Out Adjustments	585,635	6,630	90	(1,547,432)	(123,639)	(566,669)	280,027	(542,101)	(440,540)	(1,352)	(1,776)		(2,351,127)
Actual Budgeted Expenditures & Transfers-Out	126,542,278	2,085,889	9,158,769	209,836,943	4,311,900	37,367,795	81,332,512	147,943,718	79,975,294	0	0	0	698,555,099
Budget Authority	145,134,481	2,497,287	9,864,824	218,146,967	4,684,718	38,212,350	84,125,036	151,008,672	98,331,077	1	1		752,007,415
Unspent Budget Authority	\$ 18,592,203	\$ 411,398	\$ 706,055	\$ 8,312,024	\$ 372,818	\$ 844,555	\$ 2,792,524	\$ 3,064,954	\$ 18,355,783	\$ 1	\$ 1	\$ 0	\$ 53,452,316
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 254,249	\$ 43,071	\$ 102,335	\$ 859,028	\$ 79,051	\$ 65,462	\$ 334,861	\$ 631,919	\$ 767,728				\$ 3,137,704
Special Revenue Fund	18,337,954	368,327	603,720	7,452,996	293,767	664,030	2,457,663	2,433,035	17,588,055				50,199,547
Debt Service Fund													0
Internal Service Fund						115,063				1	1		115,065
Unspent Budget Authority	\$ 18,592,203	\$ 411,398	\$ 706,055	\$ 8,312,024	\$ 372,818	\$ 844,555	\$ 2,792,524	\$ 3,064,954	\$ 18,355,783	\$ 1	\$ 1	\$ 0	\$ 53,452,316

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-17.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Child & Family Services Division	Director's Office	Child Support Enforcement Division	Health & Policy Services Division	Division Of Quality Assurance	Operations & Technology Division	Disability Services Division	Senior & Long-Term Care Division	Program Management Division	Addictive & Mental Disorders Division	Director's Office/Health	Central Services/Health	Total
Personal Services													
Salaries	\$ 20,279,285	\$ 979,530	\$ 4,258,540	\$ 3,238,180	\$ 2,431,091	\$ 3,624,991	14,848,814	\$ 2,689,235		\$ 16,124,285	\$ 38,731		\$ 68,512,682
Hourly Wages	(14)					503							489
Other Compensation	5,961			300									6,261
Employee Benefits	5,243,322	237,336	1,113,120	785,911	595,278	902,492	5,441,796	976,437		6,415,072			21,710,764
Total	25,528,554	1,216,866	5,371,660	4,024,391	3,026,369	4,527,986	20,290,610	3,665,672		22,539,357	38,731		90,230,196
Operating Expenses													
Other Services	5,010,519	731,487	1,720,450	7,586,066	179,468	23,010,414	1,395,654	1,801,081		2,159,429			43,594,568
Supplies & Materials	482,027	207,946	181,780	628,404	59,133	514,336	866,295	469,483		1,933,864	9,645		5,352,913
Communications	967,649	32,597	597,752	237,854	88,329	620,501	308,108	73,971		132,148			3,058,909
Travel	1,154,366	70,188	61,446	396,444	164,595	200,126	208,701	72,045		92,529			2,420,440
Rent	1,332,596	48,679	379,789	168,185	149,723	534,837	450,160	81,851		294,810			3,440,630
Utilities	35,126	975		564	2,248	344,992		97,748		662,221			1,151,172
Repair & Maintenance	103,396	29,592	49,415	28,340	13,318	184,747	176,922	98,446		262,332	\$	264,353	1,210,861
Other Expenses	58,921,972	21,898	162,058	111,062	8,479	(41,890)	77,581	118,946		222,262	49,500		59,651,868
Goods Purchased For Resale	32						33,011	15,285		115,338			163,666
Total	68,007,683	1,143,362	3,152,690	9,156,919	665,293	25,030,369	3,861,424	2,828,856		5,874,933	59,145	264,353	120,045,027
Equipment & Intangible Assets													
Equipment	153,289	45,750	428,193	137,136	72,812	296,583	211,579	66,233		139,132	8,285		1,558,992
Intangible Assets	346		3,150	34,607	2,233	32,339	17,277			97			90,049
Installment Purchases - Equipment						1,416,580							1,416,580
Total	153,635	45,750	431,343	171,743	75,045	1,745,502	228,856	66,233		139,229	8,285		3,065,621
Local Assistance													
From State Sources										997,773			997,773
From Other Income Sources													
Total										997,773			997,773
Grants													
From State Sources	152,201						19,330	797,956		10,386,523			11,356,010
From Federal Sources	11,343,729			4,680,924				5,059,553	\$ 47,699	4,305,286			25,437,191
From Other Sources				416,887									416,887
Total	11,495,930			5,097,811			19,330	5,857,509	47,699	14,691,809			37,210,088
Benefits & Claims													
To Individuals	83,795,457	(409)		194,574,774			51,884,052	136,995,731		14,024,020			481,273,625
From Federal Sources	15,798			8,136,297									8,152,095
From Other Sources	(774)			782									8
Insurance Payments	150,820												150,820
Total	83,961,301	(409)		202,711,853			51,884,052	136,995,731		14,024,020			489,576,548
Transfers													
Accounting Entity Transfers	12,298,879	56,109	1,992,108	13,648,068	245,860	1,970,490	3,568,134	19,594					33,799,242
Total	12,298,879	56,109	1,992,108	13,648,068	245,860	1,970,490	3,568,134	19,594					33,799,242
Debt Service													
Bonds							485,875						485,875
Loans	21,150						13,290						34,440
Leases						244,430	17,100						261,530
Installment Purchases						9,492	1,517,628	9,715					1,536,835
Total	21,150					253,922	2,033,893	9,715					2,318,680
Total Program Expenditures & Transfers-Out	\$ 201,467,132	\$ 2,461,678	\$ 10,947,801	\$ 234,810,785	\$ 4,012,567	\$ 33,528,269	\$ 81,886,299	\$ 149,443,310	\$ 47,699	\$ 58,267,121	\$ 106,161	\$ 264,353	\$ 777,243,175
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 40,692,920	\$ 619,592	\$ 532,240	\$ 46,226,461	\$ 1,290,570	\$ 10,531,486	\$ 36,833,653	\$ 40,015,745		\$ 38,717,326			\$ 215,459,993
Special Revenue Fund	160,774,212	1,842,086	10,415,561	188,584,324	2,721,997	22,996,783	43,521,029	109,216,194	\$ 47,699	19,549,795			559,669,680
Debt Service Fund							1,531,617						1,531,617
Internal Service Fund											\$ 106,161	\$ 264,353	370,514
Agency Fund								211,371					211,371
Total Program Expenditures & Transfers-Out	201,467,132	2,461,678	10,947,801	234,810,785	4,012,567	33,528,269	81,886,299	149,443,310	47,699	58,267,121	106,161	264,353	777,243,175
Less: Nonbudgeted Expenditures & Transfers-Out	71,789,649	56,109	1,992,108	13,634,417	38,187	3,033,672	2,406,695	230,966		5,639			93,187,442
Prior Year Expenditures & Transfers-Out Adjustments	207,811	(310)	(59)	(1,585,941)	(2,108)	(1,806)	3,012,509	182,218		(113,580)			1,698,734
Actual Budgeted Expenditures & Transfers-Out	129,469,672	2,405,879	8,955,692	222,762,309	3,976,488	30,496,403	76,467,095	149,030,126	47,699	58,375,062	106,161	264,353	682,356,999
Budget Authority	138,980,143	2,610,696	9,405,260	228,515,155	4,461,770	31,453,807	78,512,854	149,795,231	47,699	61,166,586	202,284	339,062	705,490,547
Unspent Budget Authority	\$ 9,510,471	\$ 204,817	\$ 449,508	\$ 5,752,846	\$ 485,282	\$ 957,404	\$ 2,045,759	\$ 765,105	\$ 0	\$ 2,791,524	\$ 96,123	\$ 74,709	\$ 23,133,548
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 747,241	\$ 100,380	\$ 88,199	\$ 843,074	\$ 97,406	\$ 176,055	\$ 521,694	\$ 40,005		\$ 174,639			\$ 2,788,693
Special Revenue Fund	8,763,230	104,437	361,309	4,909,772	387,876	781,349	1,524,065	725,100		2,616,885			20,174,023
Debt Service Fund													
Internal Service Fund											\$ 96,123	\$ 74,709	170,832
Agency Fund													
Unspent Budget Authority	\$ 9,510,471	\$ 204,817	\$ 449,508	\$ 5,752,846	\$ 485,282	\$ 957,404	\$ 2,045,759	\$ 765,105	\$ 0	\$ 2,791,524	\$ 96,123	\$ 74,709	\$ 23,133,548

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1997

1. Summary of Significant
Accounting Policies

Basis of Accounting

PHHS uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust and Agency Funds. In applying the modified accrual basis, PHHS records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when PHHS incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires PHHS to record the cost of employees' annual leave and sick leave when used or paid.

PHHS uses accrual basis accounting for its Proprietary Funds. Under the accrual basis, as defined by state accounting policy, PHHS records revenues in the accounting period earned when measurable and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though PHHS receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System (SBAS) with adjustments for the agency fund presentation and the department's reorganization. In addition, mid-year SBAS changes caused some transactions to be included in summary reports other than those designated by transaction coding. Consequently, these schedules do not agree in all cases to final SBAS summary reports. These differences are explained in notes 8, 9, and 10.

Notes to the Financial Schedules

Accounts are organized in funds according to state law. PHHS uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The majority of the activity recorded in PHHS's Special Revenue Funds include federal grants such as Medicaid; Temporary Assistance to Needy Families; Aid to Families with Dependent Children; Low Income Home Energy Assistance Program; Vocational Rehabilitation; Child Support Enforcement; Foster Care; Women, Infants, and Children; Child and Adult Care Food; Prevention and Treatment of Substance Abuse; Social Services Block Grant; and the Child Care and Development Block Grant. State programs include the Public Health Laboratory, Earmarked Alcohol Tax activity for the treatment of alcoholism, and Third Party Liability recoveries. The Special Revenue Funds also account for activity at the Eastmont Human Services Center, the Montana Development Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center, and the Montana State Hospital.

Debt Service Fund - to account for accumulated resources for the payment of General Long-term Debt Principal and Interest. PHHS uses this fund to account for the Montana State Hospital and Montana Development Center bond payments.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. As a result of the reorganization, PHHS received an internal service fund from the Department of Health and Environmental Sciences (DHES). This fund included indirect charges assessed against all units of PHHS by the DHES Director's Office and Centralized Services division for providing department-wide support functions and services. By June 30, 1997, PHHS personnel closed the account by completing the allocation of indirect charges.

Notes to the Financial Schedules

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. PHHS fiduciary funds include Agency, Expendable and Nonexpendable Trust Funds. PHHS uses an Agency Fund to account for child support payments collected on behalf of children and distributed to the custodial parent or guardian. The Agency Fund also includes moneys belonging to foster care children, residents of facilities and damage deposits for department housing. PHHS uses the Expendable Trust Fund to account for abandoned property. The Nonexpendable Trust Fund is an account called Endowment for Children. As of June 30, 1997, this account contains \$25.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Each agency records cash or other assets from the statewide fund when it pays General Fund obligations. PHHS's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 1996 and June 30, 1997.

3. Refinancing

The 1995 Legislature provided additional federal appropriation authority for financing existing child welfare and foster care programs from sources other than the General Fund. The legislature authorized PHHS to retain any General Fund authority released through refinancing measures in order to provide prevention services at the local level. Due to national welfare reform, PHHS was unable to secure additional federal resources during fiscal years 1995-96 and 1996-97, and as a result, was unable to provide additional local prevention services.

4. Fiduciary Activity

PHHS maintains individual cash accounts for foster care children. PHHS receives money on behalf of the children and disburses the money upon request. PHHS also collects child support payments on behalf of children. The money is distributed to the custodial parent or guardian. The foster care and child support activity is recorded on SBAS in the Agency Fund. At June 30, 1997, PHHS had recorded property held in trust of approximately \$476,000 and

Notes to the Financial Schedules

\$1,183,000 in the foster care and child support accounts, respectively.

PHHS also maintains individual cash accounts for residents of institutions. PHHS receives the funds on behalf of the residents and disburses the funds on request or to meet resident needs. At June 30, 1997, PHHS held in trust a total of approximately \$313,000 in resident accounts.

5. Food Stamp/Food
Commodities

PHHS contracts with an issuing agent in California to mail-issue all food stamps. This issuing agent is responsible for the storage and distribution of all food stamp coupons. The state is liable for food stamp coupons held and distributed by the issuing agent. PHHS's estimated share of food stamps held in inventory by the agent is \$12,998,113 at June 30, 1997. PHHS authorized the issuance of food stamps valued at \$58,806,566 in fiscal year 1995-96 and \$57,127,627 in fiscal year 1996-97. The value of food stamps issued is recorded on the state's accounting records. PHHS, in accordance with State Accounting Policy, recorded this as other expenses in fiscal year 1995-96. There was a change in State Accounting Policy during fiscal year 1996-97, which resulted in PHHS recording the value of food stamps issued during the year as benefits and claims from federal sources.

PHHS had title to \$1,691,238 of food commodities inventory at June 30, 1997. PHHS distributed food commodities within the state valued at \$3,436,485 and \$3,270,017 in fiscal years 1995-96 and 1996-97, respectively. In addition, PHHS shipped commodities valued at \$1,256,599 in fiscal year 1995-96 and \$1,100,501 in fiscal year 1996-97 to Indian reservations in the western region of the United States as part of the Food Distribution on Indian Reservations grant. The value of food commodities handled is not recorded on the state's accounting records.

Notes to the Financial Schedules

- | | | |
|----|--|--|
| 6. | <hr/> Montana State Hospital Construction | PHHS is in the process of constructing a 166 bed facility at the Montana State Hospital at a projected cost of \$21,000,000. PHHS secured a construction loan from the Montana Board of Investments. Health care revenue bonds will be issued by the Montana Health Facility Authority (MHFA) to provide permanent financing. Revenues from the Montana State Hospital and the Montana Mental Health Nursing Care Center are pledged for bond repayment. The bonds will be issued in December 1997. Total estimated debt service, principal and interest, for the project is \$39,871,659. |
| 7. | <hr/> General Fund Cash Transfers | The Schedule of Changes in Fund Balances contains General Fund Cash Transfers In of \$200,968,515 and \$214,921,810 in fiscal years 1995-96 and 1996-97, respectively. As explained in Note 2, PHHS receives General Fund resources to pay its General Fund obligations during the fiscal year. These resources are classified as Cash Transfers In on the financial schedules. PHHS received resources of \$200,850,312 and \$215,258,842 in fiscal years 1995-96 and 1996-97, respectively. The differences between the amounts of resources received and the Cash Transfers In recorded on the Schedule of Changes in Fund Balances are accounting adjustments and corrections related primarily to department reorganizations. |
| 8. | <hr/> Agency Fund Presentation | PHHS uses three methods to record Agency Fund activity. The first is the use of revenues and expenditures. The second is using the property held in trust account whenever cash is received or disbursed. The third is a net entry at fiscal year-end so the SBAS records reflect the property held in trust on non-treasury cash accounts. The Agency Fund activity presented in the financial schedules was reclassified to report additions and reductions to property held in trust, with the exception of the Eastern Montana Veterans' Home reimbursement activity. The reimbursements come from Veterans' Administration and are appropriately classified as revenues and expenditures. The activity should be reported as part of the Special Revenue Fund because it is a federal financial assistance program. |

Notes to the Financial Schedules

9. Expenditures-Program Reclassifications

The following expenditure activity has been reclassified in the accompanying schedules for two purposes.

Agency Fund expenditures totaling \$26,696,007 for the Child Support Enforcement Division program were reclassified as reductions to property held in trust as discussed in note 8.

As part of reorganization, the department consolidated its various programs and thus had significantly fewer programs beginning in fiscal year 1995-96. However, close-out for discontinued programs continued throughout fiscal year 1995-96. Close-out included recording prior year expenditure adjustments to those discontinued programs for appropriation control purposes. Because the functions of these discontinued programs were absorbed into the reorganized program structure, the fiscal year 1995-96 prior year expenditure adjustment activity was reclassified, for presentation purposes, to more accurately reflect the activity within that structure.

SBAS Program

Expenditures

Family Assistance*	\$ (166,261)
Child & Family Services Division	(60,872)
Director's Office	383
State Assumed County Admin.*	188,746
Health & Policy Services Division	10,183
Division of Quality Assurance	1,789
Operations & Technology Division	1,194
Disability Services Division	76,915
Disability Determination Program*	53
Visual Services Program*	(32,201)
Developmental Disability Program*	20,489
Develop Disability Advisory Council*	2,114
Management Support Services Division*	(1,484)
Senior & Long-Term Care Division	(258,871)
Program Management Division	68,977
Addictive & Mental Disorders Division	80,148
Chemical Dependency*	(80,148)
Special Services*	(8,555)
Health Services Division*	(34,622)
Family/M C H Bureau*	193,166
Preventive Health Bureau*	(1,576)
Health Facilities Division	434
Net Expenditure Activity Reclassified	<u>\$ 0</u>

* The functions of these programs were absorbed by other programs within PHHS.

Notes to the Financial Schedules

10. Accounting Records

As discussed in note 1 under basis of presentation, there are instances where a summary of SBAS transactions will not agree to year-end SBAS summary reports. A description of these differences follows.

Accounting Record Discrepancies Fiscal Year 1995-96

<u>Program</u>	<u>Expenditure Category</u>	<u>Year-End SBAS Summary Reports</u>	<u>SBAS Transaction Roll up</u>	<u>Difference</u>
Child & Family Services Div.	Transfers	\$201,316,034	\$201,259,321	\$ 56,713
Director's Office	Transfers	2,419,762	2,461,988	(42,226)
Child Support Enforcement Div.	Transfers	38,368,919	37,650,775	718,144
Health & Policy Services Div.	Benefits & Claims	235,185,046	236,396,727	(1,211,681)
Division of Quality Assurance	Transfers	4,014,516	4,014,676	(160)
Operations & Technology Div.	Transfers	32,854,317	33,530,075	(675,758)
Disability Services Division	Transfers	78,817,078	78,873,791	(56,713)
Addictive & Mental Disorders Div.	Benefits & Claims	<u>59,592,382</u>	<u>58,380,701</u>	<u>1,211,681</u>
Totals		<u>\$652,568,054</u>	<u>\$652,568,054</u>	<u>\$ 0</u>

In addition to the fiscal year 1995-96 differences listed above, \$49,124 of grants from federal sources were processed as Program Management Division transactions, but by year-end, were included with Child & Family Services Division.

During fiscal year 1996-97, only one transaction was impacted by mid-year accounting system changes. A \$45 transaction was coded to Child & Family Services, but by year-end was included with the Health Facilities Division program.

11. Nonbudgeted Activity

The Schedules of Changes in Fund Balances for the fiscal years ended June 30, 1996 and 1997 contain the following nonbudgeted activity:

	<u>Fiscal Year 1995-96</u>	<u>Fiscal Year 1996-97</u>
<u>Revenues & Transfers-In</u>		
General Fund	\$ 1,825,423	\$ 204,658
Special Revenue Funds	90,027,124	91,080,769
Debt Service Funds	218,113	3,823,729
Internal Service Funds	530,215	
Agency Funds	211,371	589,407
<u>Expenditures & Transfers-Out</u>		
General Fund	\$ 1,313,091	\$ 249,123
Special Revenue Funds	90,789,376	92,702,734
Debt Service Funds	873,604	1,090,201
Agency Funds	211,371	589,407

Notes to the Financial Schedules

General Fund nonbudgeted activity is primarily the result of the allocation of indirect costs to programs benefitting from the related services. The decrease in General Fund nonbudgeted activity between fiscal years 1995-96 and 1996-97 is the result of a change in accounting methodology for the allocated costs on the state's accounting records.

Special Revenue Fund nonbudgeted activity primarily consists of the value of food stamps issued and indirect cost allocations to state and federal programs. PHHS issued food stamps valued at \$58,806,566 and \$57,127,627 in fiscal years 1995-96 and 1996-97, respectively. Indirect cost allocations to the Special Revenue funds were \$28,876,288 in fiscal year 1995-96 and \$23,075,428 in fiscal year 1996-97.

Debt Service Fund nonbudgeted activity consists of the debt service costs and transfer of revenues dedicated for payment of those costs for the Montana State Hospital and Montana Development Center construction.

Internal Service Fund nonbudgeted activity represents the final allocation of indirect charges remaining from the Director's Office and Centralized Services division of the Department of Health and Environmental Sciences.

Agency Fund nonbudgeted activity represents reimbursements received from the Veterans' Administration for services provided by the Eastern Montana Veterans' Home.

Agency Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES

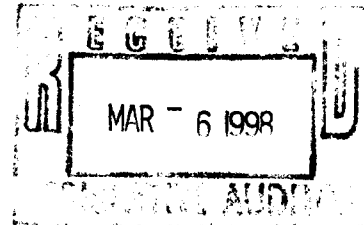


MARC RACICOT
GOVERNOR

LAURIE EKANGER
DIRECTOR

STATE OF MONTANA

March 6, 1998



Scott A. Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed are the responses of the Department of Public Health and Human Services to the recommendations presented in the financial-compliance audit report for the two fiscal years ending June 30, 1997.


This is the first audit of the department since the reorganization which merged four distinctly different departments into a single department that comprises a third of state government. In addition to implementing the reorganization, the department has undergone tremendous change in the last two years including changing its accounting structure, which increased the number of accounting entities from under 30 to over 200, and implementing welfare reform and the mental health managed care programs. Staff have experienced significant workload increases during this period, while learning new duties and tasks.

During the past two years, while dealing with the enormous complexities associated with the reorganization, the department focused on maintaining its day-to-day functions to ensure the uninterrupted delivery of services. Now that the reorganization and other major restructuring are complete, the department can focus on identifying and reengineering inefficient or defective service delivery processes and developing and implementing an effective financial management control structure.

The majority of your recommendations are related to improvements that need to be made in financial management controls. We appreciate the effort that has gone into your examination of the department's financial schedules and its compliance with state statute and policy. Your recommendations will assist the department in its continuing efforts to improve its effectiveness in providing services to its many clients and providers and in administering those programs.

Please contact me if you have any questions.

Sincerely,


Laurie Ekanger
Director

Page B-3

Recommendation #1

We recommend PHHS:

- A. Implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.

Concur: The department plans to develop a financial management control structure as recommended by completing the following projects over the next 18 months:

1. Reorganization of the Fiscal Bureau

Reorganization of the Fiscal Bureau distributes the workload more evenly among the present staff, provides for additional review and oversight of federal reporting and accounts payable functions, provides for improved communication with division fiscal staff, and provides reengineering opportunities that will improve the efficiency and effectiveness of its operations. The reorganization process includes the revision and/or writing of appropriate position descriptions, the hiring of qualified staff to fill vacant positions, the implementation of a performance appraisal process and the establishment of a training plan for each staff person. Although the reorganization has started, implementation of all aspects of the reorganization will occur over the next 18 months.

2. Internal Controls Review

The Audit Section of the Quality Assurance Division will perform a review of the Fiscal Bureau's internal control procedures and provide assistance in developing appropriate reconciliation processes and procedures. Although the initial review is expected to be ongoing through FYE98, implementation of recommendations is expected to continue through FY99.

3. Documentation of Policies and Procedures

The purpose of this project is to organize, update, communicate and document the policies and procedures related to and utilized by the department's fiscal operations. This project is ongoing and expected to be completed prior to FYE99.

4. Staff Training

This includes the development of a training plan for each individual in the Fiscal Bureau; the training plan will be incorporated into the yearly performance appraisal process. The Fiscal Bureau will also develop training opportunities specifically directed to its staff and division fiscal personnel including an overview of fiscal year-end processes; a review of federal reporting requirements and related accounting reconciliation procedures for the General Ledger Section staff; and training in general governmental accounting. The plan for each staff person is expected to be in place by July 1, 1998.

5. Cash Receipting

This project will review the processes and procedures for receiving and depositing cash in an effort to develop a more efficient process to ensure cash is deposited timely and accounted for properly. This project is not expected to begin until after the FYE98 process is complete and is expected to last only two to three months.

Each of these projects is a part of a larger effort to review the organization of the department's fiscal operations. This effort includes studying the fiscal operations in other departments as well as the complexities and information needs specific to a public assistance/human services type organization. The goal is to identify options as to how to most effectively and efficiently organize the department's fiscal operations and improve service while providing appropriate controls. This effort is ongoing and will incorporate implementation of the MT PRRIME project.

The department will present an action plan for each of these projects, including deliverables, time frames and estimated costs, at the Legislative Audit Committee meeting on March 27.

In addition to these financial management control type projects, the department will address other issues in this recommendation as follows:

- The department will process the transactions to correct specific accounting errors addressed in this recommendation by March 1998 month-end.
- The department is in the process of recording the operating budgets for all programs on SBAS; this process will be incorporated into the turn-around process for the next fiscal year.
- The department no longer accounts for the Eastern Montana Veterans' Home Nursing Care Reimbursements in an agency fund; it is using a special revenue fund as recommended.
- The department will work with the individual institutions and the Quality Assurance Division to establish procedures for reconciling all patient trust accounts.
- Procedures for handling escheated property have been distributed to division personnel.
- The department will change its procedures to account for child support accounts receivable in other than the agency fund and to properly record inter-entity loan transactions.

- B. Comply with constitutional and statutory requirements by disbursing funds only under appropriations made by law.

Partially concur: Because of the complex nature of the department's operations and the cumbersome budget amendment process, the department established the current process of writing warrants in its large systems using an advance or prepay control account. This ensures that payments to welfare recipients, other program clients and the small service providers are issued timely and not subject to extended delays due to an administrative error in the system. Although the warrants are charged to an advance or prepay control account, each system simultaneously creates a document that automatically charges

the appropriate expenditures and appropriations for those warrants. This document normally processes on the same day the warrants process ensuring that the department complies with constitutional and statutory requirements.

The department agrees with the recommendation and will make every effort to change its processes in order to charge the appropriate expenditure and appropriation when warrants are issued. However, it will do so as long as the change does not create delays in issuing payments. The projects to review internal control procedures and to review the department's fiscal operations will provide an opportunity to look at other avenues for processing warrants and enable the department to ensure the proper controls are in place to eliminate errors and take care of any adjustments timely and accurately.

Recommendation #2

We recommend PHHS:

A. Accrue expenditures in accordance with state law and policy.

Concur: The department felt that it had complied with the intent of the legislature and state policy when it accrued the expenditures for the development of and enhancements to its various operating systems. Accruing FY98 expenditures in FY97 was consistent with the practice of the previous four years. The department will work with the Department of Administration to clarify "valid obligation criteria" in state accounting policy and to ensure that future contracts meet appropriate standards before accruing related expenditures.

B. Revert \$8,000,448 to the General Fund and \$11,440,515 to the Federal Special Revenue Fund.

Concur: PHHS has processed the journal entries to revert the authority accrued for these expenditures at FYE97.

Recommendation #3

We recommend PHHS prioritize change requests based on a department-wide perspective of needs.

Concur: The department will implement new processes to ensure that the CAPS change control process adequately reflects department-wide priorities. The process changes include how the Child and Family Services Division (CFSD) prioritizes its requests that are forwarded to the change control process managed by the Operations and Technology Division.

CFSD will implement a division user group that integrates management priorities with field user priorities. The user group will be comprised of a representative cross section of CAPS users and program managers. The group will adopt, in conjunction with division managers, division wide priorities that will be used in the process to rank division requests for the CAPS change control process.

Shortly after CAPS implementation, CFSD reallocated work tasks to dedicate 1.0 FTE to division CAPS functions. The CAPS liaison for CFSD will manage, negotiate, and coordinate CFSD processes with respect to CAPS. The CAPS liaison also will work to ensure that the following occur on all future development, maintenance, and enhancement activities:

1. CFSD priorities are understood and integrated into the change control process;
2. sufficient resources and priority are established for user acceptance testing in order to ensure system design and processing results satisfy user expectations;
3. user acceptance testing is completed prior to final acceptance of major system changes and enhancements; and
4. system changes are prioritized and ranked appropriately with the aid of effective measurement tools.

Fiscal bureau staff are working in conjunction with CFSD, the department's External Systems Bureau, and BDM to ensure that accountability needs and priorities are addressed from a department-wide basis. Representatives from each of these groups meet bi-weekly to discuss issues related to the financial management processes in CAPS including the status of system enhancements, production problems and potential solutions, additional changes to improve the functionality and reliability of the financial processes, and the prioritization of these changes and enhancements. These priorities are incorporated into the change control process when appropriate.

Recommendation #4

We recommend PHHS establish adequate manual and automated procedures to:

- A. Prevent and detect overpayments to foster care providers.

Concur: CFSD identified overpayments in the CAPS system and began requesting periodic ad hoc reports in April 1997 to help identify and research potential overpayments. As CFSD staff determine why or how overpayments occur, they are taking corrective actions. CFSD has requested system changes when necessary. For example, CFSD requested certain error messages be printed on daily CAPS reports to alert staff to investigate potential overpayments. CFSD has requested an enhancement to CAPS that would allow overpayments to be deducted from future payments to a provider. Currently, CAPS cannot withhold an overpayment from future payments unless the payment is for the same service and the same child. Also, CFSD has notified division staff in writing and provided explanations as to how overpayments can be created. For example, not closing a service in a timely manner can cause an overpayment. CFSD is providing additional training for staff, when necessary, to reduce and eliminate overpayments.

The department implemented processes to prevent and identify overpayments related to services covered under the Medicaid program prior to the implementation of the Mental Health Access Plan managed care contract in April 1997. After implementation of managed care, CFSD initiated the establishment of a new

process to identify and prevent overpayments. CFSD recently received the first written report from the managed care contractor that it can use to identify potential overpayments. The report lists client services that could have been paid by both the managed care contractor and CFSD. CFSD will continue to exchange information with the managed care contractor, with the goal of instituting a regular reporting process of potential overpayments.

CFSD continues to pursue collection of overpayments. CFSD identified a number of overpayments and has written to providers requesting that they remit a check to the department. If the provider requests that the department accept monthly payments rather than immediate reimbursement in full, the CFSD generally allows providers that flexibility. Repayment agreements are often necessary because requiring immediate reimbursement in full would place a financial hardship on the provider.

B. Ensure proper recording of refund receipts.

Concur: In August 1997, a system enhancement to the CAPS system was implemented that created a new screen and posting process that enables refunds to be posted to the correct responsibility center.

Recommendation #5

We recommend PHHS review and reconcile monthly accounting records for the Foster Care Title IV-E program and make appropriate corrections and procedure changes to ensure charges are properly allocated to state and federal funds.

Concur: CFSD fiscal staff are aware of the need to review responsibility center attributes and attempt to do so as frequently as possible. CFSD has reassessed job duties in the Operations and Fiscal Services Bureau in an effort to prioritize and maximize functions, which can be accomplished with limited staffing. This assessment resulted in the assignment of a full FTE to foster care and children's services program budgeting and financial management responsibilities. This change will allow the division to be more proactive and efficient in the budgeting and financial management area. CFSD staff began reviewing IV-E related responsibility center attributes monthly in February 1997. It should be noted that the \$8,956 of questioned costs are less than 1% of the funds received from this federal program.

Recommendation #6

We recommend PHHS:

A. Implement effective procedures for reconciling SBAS and its subsidiary foster care systems on a timely basis to ensure financial information on the accounting records is accurate and complete.

Concur: Fiscal Bureau staff continue to work with the programming staff at BDM to obtain all the data necessary to complete the reconciliation of CAPS to SBAS. The need for the additional detail information on CAPS transactions that do not initiate SBAS activity and corrections that need to be made in reports previously produced have delayed the reconciliation process. The reports are expected to be rerun and the

additional information available to begin the reconciliation process in March. This process is being coordinated through the CAPS liaison position and will be reviewed by the Quality Assurance staff in their Internal Control Review project.

- B. Ensure the ability to reconcile to the accounting records is included in the design of all systems which are intended to support those records.

Concur: The department will ensure that internal controls and important fiscal accountability processes and procedures, such as reconciliation procedures, are incorporated in the design of future systems or the redesign of current systems.

Recommendation #7

We recommend PHHS:

- A. Evaluate and reassign Fiscal Bureau staff responsibilities to eliminate incompatible functions and strengthen controls.

Concur: The Fiscal Bureau has reassigned tasks so an appropriate segregation of duties exists in this area.

- B. Ensure backup exists for key positions.

Concur: The Fiscal Bureau has established backup for key positions and will incorporate a review of job duties and staffing requirements in a review of the CAPS processes as well as the review of the department's fiscal operations.

Recommendation #8

We recommend PHHS liquidate the foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts.

Do not concur: The department would like to continue to invest the available trust funds in STIP since they do earn interest that offsets the amount of general fund money used to pay for the care of these foster children. The fiscal bureau staff will work with the quality assurance staff to develop a system to maximize interest earnings while minimizing the level of effort required to continue investing these funds.

Recommendation #9

We recommend PHHS promptly reconcile and properly resolve the differences between payments authorized by SEARCHS and payments made by TEAMS.

Concur: The transactions required to reconcile these two systems for the difference resulting from the disregards have been processed. These differences did not occur after October 1, 1996.

Recommendation #10

We recommend PHHS establish review procedures to ensure an accurate and complete Schedule of Federal Financial Assistance is submitted to the Governor's Office.

Concur: The reorganization of the Fiscal Bureau, including the addition of supervisory staff to the General Ledger and Financial Reporting Section and the filling of vacant positions, should provide the resources necessary to provide adequate review of the fiscal year-end information before it is submitted to the Governor's Office to be included in the Schedule of Federal Financial Assistance. In addition, reconciliation of the federal reporting information to SBAS is being done monthly. This along with a restructuring of the cost allocation process at fiscal year-end so information is available timely should ensure that accurate and timely information is sent to the Governor's Office.

Recommendation #11

We recommend PHHS comply with the Cash Management Improvement Act and other federal regulations applicable to the management of federal cash.

Partially concur: The department requested funds early in order to ensure welfare recipients and providers of services would be paid in the event of a federal "shutdown". As soon as it was determined that a shutdown was not imminent and payments were not jeopardized, the excess drawdown amounts were returned to the federal government. The \$46 million drawn in January was returned within three days after receipt. The interest rate earned on the State Treasurer's account in FY96 was 5.45%; the interest rate used for the payment to the feds was 5.31%. The state treasury earned approximately \$11,460 in excess of the amount of interest paid back to the federal government for funds subject to the requirements of the Cash Management Improvement Act (CMIA). This calculation does not include the additional interest earned by the state treasury on other grant monies drawn early that are not subject to the CMIA.

Recommendation #12

We recommend:

A. Establish procedures to ensure compliance with federal laws and regulations related to subrecipient monitoring.

Concur: The Intergovernmental Human Services Bureau does have procedures related to contract monitoring of subrecipients. The procedures were not followed in this case, but will be for subsequent related contracts.

B. Seek reimbursement of the \$4,158 from the contractor.

C. Reimburse the federal government \$4,158.

Concur: The Intergovernmental Human Services Bureau will seek reimbursement of \$4,158 from the contractor and return this money to the federal government.

Recommendation #13

We recommend PHHS comply with federal regulations concerning debarred and suspended parties.

Concur: The department is in the process of changing its contracting procedures and will incorporate this recommendation in those changes.

Recommendation #14

We recommend PHHS ensure its quality control resolution procedures comply with federal regulations.

Partially concur: The department disagrees with the statement that county notifications are filed and no further follow-up is performed to determine if the county decision is appropriate. The department Program Integrity Unit reviews county notifications and makes the determination whether they are appropriate or not. The Program Integrity Unit then performs the necessary follow-up to inform the county of its determination and oversees corrective action if it is determined to be necessary. The Program Integrity Unit has procedures for this review and follow up.

There is no quality control requirement for the Temporary Assistance for Needy Children block grant. States set their own eligibility, but the department is continuing the established procedures for the review and resolution of quality control.

The Public Assistance Bureau has implemented a Letter of Agreement with the Quality Control Division to review 25 cases per month per region, and the department has hired regional quality assurance specialists to review 100 cases per month to catch errors and identify training needs. The bureau has also re-emphasized and provided training on claims establishment.

The bureau has procedures in place for quality control findings and is in the process of establishing procedures for quality assurance findings.

Recommendation #15

We recommend PHHS review and revise its cost allocations to the food commodity programs to ensure compliance with federal regulations.

Concur: The department will update its cost allocation process for the commodities warehouse and annually review the percentage charged to each program.

Recommendation #16

We recommend PHHS ensure the WIC computer system generates accurate and consistent summary reports.

Concur: DPHHS will institute a process to ensure that all monthly and annual federal reports are accurate. A review of the system logic will be done to determine if corrections or a reconciliation of the posting summary to the resolution report is necessary.

Recommendation #17

We recommend PHHS:

- A. Modify the TEAMS programming to ensure expenditures are properly charged to the AFDC and TANF programs.
- B. Calculate the amount of AFDC activity charged to TANF, process the necessary transactions to correct the accounting records, and submit revised federal reports.

Concur: In August of 1997, an error was discovered in the way TEAMS reported costs to TANF/AFDC responsibility centers for county billing. The error was identified and a modification was made in TEAMS to ensure that the error would not occur again. SBAS reconciliations and corrections to county billing were made in December 1997. SBAS adjustments were made prior to Federal reports being submitted and therefore no corrected reports were necessary. All transactions have been corrected and TANF/AFDC responsibility centers report correctly.

Recommendation #18

We recommend PHHS:

- A. Implement procedures to ensure it spends in accordance with specific, restrictive language contained in appropriation bills.

Concur: DPHHS has implemented a review process in which division budget analysts review language in appropriation bills as part of the establishment of appropriations at the beginning of the biennium. The department corrected the at-risk appropriation for the second year of the 1999 biennium and did not use general fund appropriations for at-risk child care benefits for administrative costs in fiscal year 1996 -1997.

- B. Revert \$38,800 to the General Fund.

Concur: The department will move administrative expenditures paid from the at-risk child care general fund to another unrestricted general fund appropriation for fiscal year 1995-1996.

Recommendation #19

We recommend PHHS establish procedures for reporting theft in accordance with state law and communicate those procedures to all employees.

Partially concur: The department has always had written procedures in place for reporting theft in accordance with state law. These procedures may not have been conveyed to all employees since the reorganization occurred. The department will ensure that these procedures are distributed to all department employees.

Recommendation #20

We recommend PHHS comply with the reporting requirements in section 53-6-110, MCA.

Concur: The department has prepared and submitted reports to the legislature as required by section 53-6-110, MCA. These reports have included a great deal of historical information dealing with the Medicaid program in Montana. Future reports will include more extensive information including projected information, trends and other information identified in this recommendation.

Recommendation #21

We recommend PHHS establish procedures to ensure payroll is processed according to time sheets submitted for the current pay period.

Concur: The Payroll Section has implemented new policies and procedures to eliminate this problem and provide accurate accounting on time sheets. The supervisor will document the policies and procedures in writing. Payroll has made the appropriate corrections for previous errors.

Recommendation #22

We recommend PHHS comply with state law by distributing all remaining alcohol taxes to counties.

Concur: The department will distribute all remaining alcohol taxes to the counties by FYE98. In addition, the reorganization of the Fiscal Bureau provides additional review resources to ensure the appropriate portion of alcohol taxes are completely distributed annually.

Recommendation #23

We recommend PHHS work with the Office of Budget and Program Planning to eliminate statutory appropriations for tobacco education fees, alcohol tax distributions, and amounts deposited in the energy conservation and assistance accounts.

Partially concur: The department will work with the Office of Budget and Program Planning, the Legislative Fiscal Division, and the SB 378 Subcommittee of the Legislative Finance Committee to review the appropriateness of the statutory appropriations and determine if legislation is necessary to eliminate them.

Recommendation #24

We recommend PHHS transfer \$24,921 from the Federal Special Revenue Fund to the General Fund.

Partially concur: This recommendation is left over from the previous audit of the Department of Family Services. According to the last audit follow-up report, three entries were made in November of 1995 to complete this transfer. Fiscal Bureau staff, however, have been unable to identify the documents that actually made the transfer. Staff continue to research the issue and will make the necessary transactions if it is determined that they have not already been made.

Other Comments

While undergoing extensive reorganization, implementing state and federal welfare reform and the mental health managed care program, and changing the department's accounting structure, the department implemented or partially implemented 37 of 52 audit recommendations from the prior audits of the four departments that merged to form PHHS. The department will continue to work towards improving its internal control structure and completing the development and implementation of the CAPS system used for the foster care program.

The Report Summary on page vii refers to the opinion letter on the financial schedules which "discusses misstatements exceeding \$85 million." As indicated in this same section, over \$64.4 million were expenditure classification errors of which \$58.8 million is a food stamp expenditure classification error that occurred because of an error in state policy issued by the Department of Administration and adhered to by PHHS. This error was corrected by the Department of Administration and PHHS in FY97.

The department has some concern about the materiality of the classification errors and the importance of this information to the readers of these financial schedules. These expenditure classification errors do not impact the State's comprehensive annual financial report (CAFR). Although expenditure classification errors might be of some concern in the budget office and LFD analyses, the \$58.8 million is a nonbudgeted expenditure recorded in SBAS for accounting purposes only. The remaining \$5.6 million is an expenditure classification error within the same expenditure category and is reflected in the budget simply as "Grants". In both cases, the department did not misstate its overall expenditure levels.